



YEAR ENDED 31 MARCH

2008

ACCSYS Technologies PLC
ANNUAL REPORT AND
FINANCIAL STATEMENTS





accoya®
the strength within

wood without compromise

Accsys Technologies PLC

Annual report and financial statements for the year ended 31 March 2008

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Accsys Technologies PLC

Chairman's statement

Results

I am delighted to report excellent progress with your Company during the course of the year, a year that has been transitional in many ways, not least of all in the financial results.

We report revenues of €27.3 million (up from €50,000 last year) and most importantly, our first audited net profits of €4.1 million (compared to a loss of €22.1 million last year).

To celebrate your Company's achievements, your Board has voted to pay a maiden dividend of €0.01 per share. For those of us who have backed the development of this business for many years, this is a real milestone. I am also pleased to note that this maiden dividend is covered 2.7 times by distributable earnings, and comes a full year ahead of analysts' expectations.

Share price and market listings

Calendar year 2007 saw an increase of 104% in the Company's share price, putting us amongst the top performers on AIM, with good liquidity. Market conditions during 2008, as everyone is aware, have not been favourable, but we must take comfort from the fact that the share price and support for the Company has held up well under adverse market conditions and our core business has not been affected by such conditions.

The Company gained stature from listing on NYSE Euronext in Amsterdam last September, being the first AIM listed company to become dual listed on Euronext, raising a net €18.5 million. Fortis acted as Lead Manager for the successful listing and while liquidity in that market has not yet matched expectations and our share price has suffered since the dual listing, we are appreciative of the support of a number of blue chip institutional investors from across Europe.

Management

Finlay Morrison joined us as Chief Executive Officer in October 2007, bringing a wealth of experience from an impressive career including senior roles at Celanese Corporation and Hoechst AG. Finlay has worked tirelessly to expand the team globally, improve operations in Arnhem, establish a US office in Dallas and prepare us for the expansion in the year ahead.

Glyn Thomas, our CFO since inception is now stepping down to assume a full time role as CFO of our first licensee, Diamond Wood China Limited, in which the Company has a stake. He has made an unparalleled contribution to the development of your Company, his involvement dating from 2001.

Kevin Wood joins us as Chief Financial Officer bringing experience of manufacturing from senior finance roles with Arla Foods UK plc and formerly with GEHE UK plc. Kevin is a chemical engineering graduate and qualified with Coopers & Lybrand, his appointment as Chief Financial Officer taking effect from the approval of these annual results.

During the year we strengthened our independent non executive representation on the Board with the appointment in August 2007 of Lord Sanderson of Bowden who has had an illustrious career in politics, industry and banking, being Chairman of Clydesdale Bank for many years. Lord Sanderson has brought significant experience to the Board as well as to the Nominations & Remuneration Committee, which he now chairs, and the Audit Committee.

We have also appointed Tom Priday to the Board as a non executive director, effective today. Tom brings extensive banking experience over the last 25 years having served with BNP Paribas, UBS and DePfa. Tom is currently Chairman of Finisterre Capital LLP.

Chairman's statement continued

Stefan Allesch-Taylor and Edward Pratt both stepped down from the Board and I would like to thank them both for their contribution, help and support over the years.

As the Company has grown the management team has expanded significantly, and will continue to do so during the course of this year. I assess our people resource as our key critical resource factor. Our success in developing your Company over recent years has been fundamentally attributable to the dedication of our staff – operating at all levels and increasingly, today, in many parts of the world.

I place great importance in ensuring we attract, recruit, develop, motivate and incentivise the best people. Our business strategy is to license our technology – globally. Licensing new technology brings many challenges – protection of intellectual property, helping potential licensees understand and exploit market opportunities for a new material and closing contracts worth hundreds of millions of Euros over the full term.

We rely on dedication, expertise, integrity and sustained levels of effort in sometimes challenging circumstances. I work to ensure we have in place reward systems which recognise the sacrifices our staff make and their contribution to the success of your Company.

Business plans

We continually explore ways to improve our business model and pride ourselves on our flexibility in the search for increased profitability. We successfully started commercial operations at our plant in Arnhem; signed two License Agreements in China and the Middle East; restructured our supply agreement with Celanese Corporation; made an equity investment in Diamond Wood China Limited; opened a new office in Dallas and, in round terms, increased staff numbers from fifty to seventy five people.

The plans for the current year are focused on continuous improvement of our production processes, technology development and closing more licensing transactions. As described in greater detail in the Business Review, we have made solid progress in improving the production process – something we always anticipated would take patience following the 80 fold scale up from our large scale pilot plant to the commercial scale technology demonstration facility in Arnhem. We are also developing enhanced designs to increase productivity and reduce unit cost – which will naturally encourage further interest amongst potential licensees.

Our first two licensees signed for a substantial aggregate annual capacity of 650,000 m³ at our published pricing of €200 per m³ of capacity plus €22 per m³ annual capacity royalties.

Our success in signing our first licenses has been encouraging in a number of respects: the scale of licensed production per licensee and their geographical locations. The scale is indicative of the size of potential market demand for durable and attractive Accoya[®] acetylated wood. Feedback from market studies and discussions with potential end users around the world continues to identify a widening array of product applications for which Accoya[®] is suitable.

Conclusions

Your Company has now reported its first profit and has beaten analysts' expectations on that profitability. We have no debt, a cash position of €46 million, a market capitalization exceeding €400 million and have approved our first dividend payment. Your company has had a good year and we look forward with excitement to the year ahead.

The scale and geographical diversity of third parties with whom we are currently discussing potential license arrangements reflects the truly global nature of our business opportunity and we expect to make further announcements on additional licensing activity in the near future.

It is a pleasure to serve as your chairman and I would like to thank you for your support.

Willy Paterson-Brown, Executive Chairman

18 June 2008

Accsys Technologies PLC

Business review

Financial results

With the first year's production from the Accoya® technology validation plant, fees from the Accoya® License Agency being recognised and initial payments under the first two Technology Licenses – aggregate revenues reached €27.3 million (2007: €0.05m).

Having produced our first Accoya® production batch in March 2007, the past year has been focused on improving capacity utilisation, extensive product testing and process refinement. The year has started with an improvement in stock availability for Accoya® and distribution agreements have been put in place for France, Italy, Norway, Denmark and Chile, in addition to those already in place in the UK, Germany and The Netherlands.

The increase in general administrative expenses, excluding prior year impairment charges, has been limited to 15% despite the expansion of business activity.

Substantial additional cash was raised from additional share issues (€42.5m net of costs; 2007: €10.3m net of costs), whilst the cash outflow from operations was largely staunched (outflow of €0.7m; 2007: outflow of €8.5m). With capital expenditure during the year falling to €7.0m (2007: €18.2m), cash balances rose to €46.2m (2007: €10.8m). This places the Company in a strong position to undertake investment in further development of its proprietary acetylation technology (for both solid wood and for fibreboard) and for expansion of its own Accoya® production facilities; to improve economies of scale and to in-source various ancillary activities currently outsourced.

Technology development

Good progress has been achieved during the year in developing operating protocols at our Arnhem facility. Det Norske Veritas, world renowned for certification of engineered process parameters, have been appointed as the certification body for Accoya® production process requirements. Two certification runs have been fully completed and established the methodology for the certification that is expected to meet the needs of all licensees of the technology.

Despite some early teething problems bedding in the new plant, production has steadily risen throughout the year and is expected to continue to climb steadily as pre drying, new loading and new processing protocols are refined and adopted.

As well as refining the existing production model, known as the MP4, engineering work is on-going to finalise an evolutionary development (MP4.1). This evolutionary development sees a doubling of capacity, but otherwise proposes very limited changes to the configuration. This represents a low cost and low risk solution that we plan to make available as an option for existing as well as new licensees during the second quarter of the current year. We are continually seeking to raise productivity significantly and reduce unit cost to substantially improve profitability whilst supporting entry to lower price points.

At the interim stage we announced plans to develop our site at Arnhem by in-sourcing some currently outsourced activities and to expand capacity. Additional land adjacent and contiguous to our existing wood modification plant has been acquired. Detailed proposals are now being drawn up ready to evaluate alternative capabilities to bring on site prior to commissioning the detailed engineering.

We are undertaking an extensive programme of species testing to identify a wider range of species that can be used to produce acetylated wood of appropriate quality at an economic cost. These tests are particularly important for those prospective licensees owning their own extensive forests.

Progress on the acetylated fibre project has continued and we anticipate significant developments in the course of the coming year.

Progress in building awareness about Accoya®

The brand name 'Accoya' and the Trimarque Device have been successfully registered in all major territories and comprehensive Brand Guidelines have been developed to ensure protection of the brand wherever and whenever it is used.

Accoya® wood has been represented at a number of international conferences, events and exhibitions, including Dubai, Florida, Greece, the Netherlands, Turkey, UK and USA, attracting wide attention and interest. Excellent exposure at Ecobuild 2008 in London (several trade stands plus the Accoya® wood Lecture Theatre) led to numerous trade enquiries and generated additional extra interest from prospective licensees. Ongoing positive press coverage has been obtained in UK, USA and Europe, and The Times Media Planet 'Out of the Woods' supplement carried a full page Accoya® wood advertisement in November.

Projects using Accoya® wood in diverse applications have included Accoya® wood windows and doors for a sustainable house built during Grand Designs Live on UK television. Wide media coverage of the use of Accoya® wood for windows, doors and cladding in an architect-designed private residence in Fife was also achieved. Amongst other projects, Accoya® wood has been used in fencing for a zoo enclosure, canal sidings, balconies, bridges, decking, workshops, housing association developments and wooden planters (as seen at the Chelsea Flower Show).

In March, Titan Wood won the 2008 Dutch National Award for Innovation - the prestigious "Columbus Egg" - and also the award for Sustainable Production Technology. These bi-annual awards are granted by the Dutch Government to reward sustainability innovation in the Netherlands. Titan Wood has subsequently been entered into the European Business Awards for the Environment (EBAE).

Titan Wood Limited has also been granted FSC (Forest Stewardship Council) and PEFC (Programme for the Endorsement of Forest Certification) Chain of Custody Certification.

Progress with licensing activity

Our agreements with Celanese were successfully restructured during the year, providing the Group with greater flexibility for the supply of acetyls for licensing arrangements and increased competition for supply to meet our own needs.

The Licensing Agency agreement signed last year proved extremely worthwhile, with the entire agency capacity commitment fulfilled through involvement in the full technology license agreements signed during the year.

The first license we signed was for the China market with Diamond Wood China Limited in respect of an annual production capacity of 500,000 m³. Diamond Wood China Limited is a private Hong Kong company, which has a highly experienced team and already making strong progress towards achieving government approvals for its first facility. In evaluating the risks and opportunities from this license, it became clear that the Company would potentially gain considerably by taking a direct equity stake. Accordingly, for a €6m investment, the Company has a 13% stake in the Hong Kong domiciled parent company.

Our second license agreement is with a large Saudi financial group, Al Rajhi Holdings WLL. Al Rajhi Holdings WLL has taken a license for 150,000 m³ annual capacity and exclusive rights for the territories of Saudi Arabia, Bahrain, Kuwait, Oman, Qatar and the United Arab Emirates.

Discussions with additional potential licensees are currently at various stages of development with prospective parties in a wider range of territories in almost every continent.

Accsys Technologies PLC

Business Review continued

Building our resources

As the Chairman has remarked, our critical resource constraint is skilled people. We have had a measure of success recently and have considerably strengthened our engineering and design resource with the arrival of a number of very experienced engineers.

We have also expanded our licensing resource, with the beginning of regional deployments across Asia, the Americas and in Europe. Our marketing team has been expanded and additional direct sales staff retained in Western Europe.

We have recruited in-house legal resource and augmented our finance and planning team. We have also expanded our logistics team.

This selective accretion in manpower is reflected in rising administration overheads but is the key enabler to grow the business and close an increasing number of licensing agreements.

Our financial resources are clear from the balance sheet. With significant cash, and no debt, we are well placed to finance resource expansion across all key disciplines, as well as to enhance our in-house production capacity.

Finlay Morrison, Chief Executive Officer
Glyn Thomas, Chief Financial Officer
18 June 2008

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Directors' report for the year ended 31 March 2008

The directors present their report together with the audited financial statements for the year ended 31 March 2008.

Results and dividends

The consolidated income statement for the year is set out on page 17.

The directors recommend payment of a maiden dividend of one euro cent per ordinary share.

Principal activities and review of the business

The principal activity of the group is the development and commercialisation of its proprietary technology for the manufacture of Accoya branded acetylated wood. The group is also engaged in the development of other related process technologies with potential applications in the wood and chemicals industries. A review of the business is set out in the Chairman's statement and the Business review on pages 1 to 5.

Financial instruments

Details of the use of financial instruments by the Company and its subsidiary undertakings are set out in Note 21 of the financial statements.

Share issues

Celanese Corporation ("Celanese") subscribed for 8,115,883 new ordinary shares at a price of €2.72 per share, a price determined as being at a 5% premium to the closing share price on 27 March 2007, the date the strategic partnership was entered into. An Extraordinary General Meeting held on 15 May 2007 also approved the granting of an option to Celanese to subscribe for additional Ordinary shares to increase its holding in the Company to 29.9% at the market price when the option is exercised.

On 18th September the Company was admitted to trading on Euronext Amsterdam by NYSE Euronext. Accsys Technologies was the first AIM listed company to become dual listed on Euronext, with 5,000,000 new Ordinary shares placed at a price of €4.10 each to raise a net €18.5 million. These shares were issued under the dis-application authority vested in the directors by the shareholders to issue additional shares up to 5% of the shares then in issue.

An aggregate of 1,574,160 additional new ordinary shares were issued during the year at a price of €0.46 each as a consequence of option-holders exercising share options.

Commercial agreements with Celanese Corporation

In May 2007, an agreement was signed with Celanese for exclusive supply of acetyls which included an investment of €22.1 million in the Company. The following six months saw rapid progress in the development of the Group's business, during which it became apparent that the original terms of the agreement were too restrictive for both companies. In November 2007, the Company agreed a new arrangement with Celanese as it had become clear that the trading and supply relationships, in conjunction with our prospective licensees, needed to be negotiated on a case by case basis. Under the new agreement, Celanese relinquished its option to acquire further Ordinary shares in the Company to take its equity stake up to 29.9% and agreed to an orderly placement of Celanese's then 5.23% holding in the Company – the majority of which has been placed in the market. At the latest date available, Celanese holding in the Company is below 1%. Having reached a new business relationship with Celanese we were immediately in a position to proceed to close our Licensing Agreement for China.

Principal risks and uncertainties

The business, financial condition or results of operations of the Group could be adversely affected by any of the risks set out below. The Group's systems of control and protection are designed to help manage and control risks to an appropriate level rather than to eliminate them.

The directors consider that the principal risks to achieving the Group's objectives are those set out below.

- (a) **Economic and market conditions**
The Group's operations comprise the manufacture of Accoya and licensing the technology to do so to third parties. The cost and availability of key inputs affects the profitability of the Group's own manufacturing whilst also impacting the potential profitability of third parties interested in licensing the Group's technology. The price of key inputs and security of supply are managed by the group, partly through the development of long term contractual supply agreements.
- (b) **Regulatory, legislative and reputational risks**
The Group's operations are subject to extensive regulatory requirements, particularly in relation to its manufacturing operations and employment policies. Changes in laws and regulations and their enforcement may adversely impact the Group's operations in terms of costs, changes to business practices and restrictions on activities which could damage the Group's reputation and brand.
- (c) **Employees**
The Group's success depends on its ability to continue to attract, motivate and retain highly qualified employees. The highly qualified employees required by the Group in various capacities are sometimes in short supply in the labour market.
- (d) **Intellectual property**
The Group's strategy of licensing technology depends upon maintaining effective protection of its intellectual properties. Protection is afforded by a combination of patents, secrecy, confidentiality agreements and the structuring of legal contracts relating to key engineering and supply arrangements. Unauthorised use of the Group's intellectual property may adversely impact its ability to license the technology and lead to additional expenditures to enforce legal rights.

Key performance indicators

The directors consider the following to be key performance indicators by which progress in the development of the business may be assessed:

- Progress in introducing Accoya into key end use applications (including external doors, windows, decking and cladding) in major markets, which are seen as an indicator of high volume future demand requiring supply from local or foreign technology licensees of the group. Good progress has been achieved in developing the first two such large national market end product applications in Germany and the UK.
- Future expansion of licensed Accoya production capacity.
- Process improvements to reduce progressively the direct cost per m³ to produce Accoya, optimising the utilisation of direct materials, utilities and capacity utilised in the wood modification process.

Future developments

The directors' priorities for the Group's future development include:

- Driving the development of major end use applications adopting Accoya in major markets
- Exploiting global demand for licensing proprietary technology for wood modification

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- Developing a commercial scale manufacturing process for the production of acetylated wood fibre products in the MDF, OSB and fibreboard market.

Significant shareholdings

At 5 June 2008, the latest practical date prior to the announcement of these results, the following shareholders held beneficial interests in the Ordinary shares exceeding 3%:

• Saad Investments Company Limited	9.9%
• Oak Foundation USA Inc, and related parties	7.7%
• Rajhi Holdings	6.5%
• UBS Wealth Management (UK) Limited	5.0%
• Rathbone Investment Management Limited	4.0%
• Axa Framlington	3.9%

Directors

The directors of the company throughout the year were:

Willy Paterson-Brown	
Stefan Allesch-Taylor	resigned 9 May 2008
Gordon Campbell	
Finlay Morrison	appointed 10 October 2007
Tim Paterson-Brown	
Edward J Pratt	resigned 26 June 2007
The Rt. Hon. Lord Sanderson of Bowden, Kb, D.L.	appointed 16 August 2007
Glyn C Thomas	

Directors' interests in the Ordinary shares of the Company

The directors' interests in the Ordinary shares at the year end were as follows:

	Ordinary shares		Options over Ordinary shares	
	31 March 2008	31 March 2007	31 March 2008	31 March 2007
Willy Paterson-Brown	*22,000,000	*20,000,000	3,440,000	2,440,000
Stefan Allesch-Taylor	*20,000,000	*20,000,000	-	-
Gordon Campbell	100,000	48,172	-	-
Finlay Morrison	-	-	1,000,000	-
Tim Paterson-Brown	*20,000,000	*20,000,000	-	-
Lord Sanderson	11,095	-	-	-
Glyn C Thomas	618	480,618	1,480,000	1,230,000

Note * At the balance sheet date, 20,000,000 Ordinary shares and 415,184 Deferred shares were registered in the name of MacNiven and Cameron Equity Holdings Limited. Messrs S Allesch-Taylor, W Paterson-Brown and T Paterson-Brown had beneficial interests in those shares as they were three of the discretionary beneficiaries of a trust which owned the majority of the issued share capital of MacNiven and Cameron Equity Holdings Limited. None of these persons could exercise, or influence the exercise of, the voting rights of the Ordinary and Deferred shares held by MacNiven and Cameron Equity Holdings Limited.

On 8 May 2008, the Company was advised that the trust had been dissolved and the directors previously disclosed beneficial interest fell away. On the same date, T Paterson-Brown disclosed he held a beneficial interest in 2,500,000 Ordinary shares and W Paterson-Brown disclosed he held a beneficial interest in 3,000,000 Ordinary shares. There have been no other changes in directors' interests since the year end.

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Directors' report for the year ended 31 March 2008 continued

At the date of signing these financial statements, the directors held the following interests in the Ordinary shares

	Direct holdings	Beneficial interests	Share options
Willy Paterson-Brown	2,000,000	3,000,000	3,440,000
Gordon Campbell	100,000	-	-
Finlay Morrison	-	-	1,000,000
Tim Paterson-Brown	-	2,500,000	-
Lord Sanderson	11,095	-	-
Glyn C Thomas	618	-	1,480,000

Directors' share options

	At 1 April 2007	Granted during year	Vested during year	Exercised during year	At 31 March 2008
Willy Paterson-Brown					
Vested at €0.46	720,000	-	720,000	-	1,440,000
Unvested at €0.46	720,000	-	(720,000)	-	-
Vested at €2.59	-	-	333,333	-	333,333
Unvested at €2.59	1,000,000	-	(333,333)	-	666,667
Vested at €3.84	-	-	333,333	-	333,333
Unvested at €3.84	-	1,000,000	(333,333)	-	666,667
Finlay Morrison					
Vested at €3.80	-	-	333,333	-	333,333
Unvested at €3.80	-	1,000,000	(333,333)	-	666,667
Glyn Thomas					
Vested at €0.46	-	-	480,000	-	480,000
Unvested at €0.46	480,000	-	(480,000)	-	-
Vested at €2.59	-	-	250,000	-	250,000
Unvested at €2.59	750,000	-	(250,000)	-	500,000
Vested at €3.84	-	-	83,333	-	83,333
Unvested at €3.84	-	250,000	(83,333)	-	166,667

Details of the share option awards are set out in Note 12.

Directors' indemnities

The Company maintains directors' and officers' liability insurance which gives appropriate cover for any legal action brought against its directors.

Employment policies

The Group operates an equal opportunities policy from recruitment and selection, through training and development, appraisal and promotion to retirement. It is our policy to promote an environment free from discrimination, harassment and victimisation, where everyone will receive equal treatment regardless of gender, colour, ethnic or national origin, disability, age, marital status or sexual orientation. All decisions relating to employment practises will be objective, free from bias and based solely upon work criteria and individual merit.

Health and safety

Group companies have a responsibility to ensure that all reasonable precautions are taken to provide and maintain working conditions for employees and visitors alike, which are safe, healthy and in compliance with statutory requirements and appropriate codes of practice.

The avoidance of occupational accidents and illnesses is given a high priority. Detailed policies and procedures are in place to minimise risks and ensure appropriate action is understood in the event of an incident. A dedicated health and safety officer is retained at the Group's manufacturing facility.

Creditor 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 and adhere to payment terms consistent with local procedures, custom and practice. For the year ended 31 March 2008, the average payment period for trade creditors was 61 days.

Going concern

After making enquiries, the Directors have a reasonable expectation that the Company 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 the financial statements.

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.

Auditors

BDO Stoy Hayward LLP has 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
18 June 2008

Accsys Technologies PLC

Corporate governance

Details of the Company's corporate governance arrangements are set out below. The Board of Directors acknowledges the importance of the Principles set out in The Combined Code issued by the Committee on Corporate Governance. The Combined Code is not compulsory for AIM listed companies. The Board has not complied with the code in full, but has applied the principles as far as practicable and appropriate for a relatively small public company.

We give below a statement as to how the Company applies the principles of Section 1 of the Revised Code, together with a statement regarding its compliance with specific provisions. The Board consists of an executive Chairman, two other executive Directors, and three non-executive Directors. The Company has been in compliance throughout the year with the provisions set out in the Combined Code for Corporate Governance with the following exceptions:

- The Board has not undertaken a formal and rigorous annual evaluation of its own performance and the individual Directors. This is contrary to provision A.6.1 but this is being reviewed; and
- Certain of the non-executive Directors of the Company have not been appointed for specific terms as required by provision A.7.2 but this is being reviewed. Subsequently, all non executive directors have signed new Letters of Appointment which are compliant with the provisions of A.7.2.

Until the appointment of Lord Sanderson, on 16 August 2007, as Senior Independent Director, the Company did not comply with the requirements for the minimum number of independent directors nor did it comply with the requirements for an elective process for the appointment of non-executive Directors.

Until the appointment of Finlay Morrison, on 10 October 2007, as Chief Executive Officer, the Company did not comply with the requirement for the posts of Chairman and Chief Executive to be held separately.

The Board of Directors

Throughout the period, the Board comprised a Chairman, and at least one executive Director.

The Board meets regularly and is responsible for strategy, performance, approval of major capital projects and the framework of internal controls. The Board has a formal schedule of matters specifically reserved to it for decision. To enable the Board to discharge its duties, all Directors receive appropriate and timely information. Briefing papers are distributed to all Directors in advance of Board meetings. All Directors have access to the advice and services of the Company Secretary. The appointment and removal of the Company Secretary is a matter for the Board as a whole. In addition, procedures are in place to enable the Directors to obtain independent professional advice in the furtherance of their duties, if necessary, at the Company's expense.

During the year, all serving Directors attended the quarterly Board meetings that were held. In addition to the scheduled meetings there is frequent contact between all the Directors in connection with the Company's business including audit and nomination & remuneration committee meetings which are held as required, but as a minimum twice per annum.

Directors are subject to re-election by the shareholders at Annual General Meetings. The Articles of Association provide that Directors will be subject to re-election at the first opportunity after their appointment and the Board submit to re-election at intervals of three years.

Audit Committee

The Audit Committee consists of Gordon Campbell (Chairman), Tim Paterson-Brown and Lord Sanderson. The Audit Committee meets at least twice a year and is responsible for monitoring compliance with accounting and legal requirements and for reviewing the annual and interim financial statements prior to their submission for approval by the Board. The Committee also discusses the scope of the audit and its findings and considers the appointment and fees of the external auditors. The Audit Committee believes that it is not currently appropriate for the company to maintain an internal audit function due to its size.

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The Audit Committee considers the independence and objectivity of the external auditors on an annual basis, with particular regard to non-audit services. The non-audit fees are considered by the Board not to affect the independence or objectivity of the auditors. The Audit Committee monitors such costs in the context of the audit fee for the period, ensuring that the value of non-audit service does not increase to a level where it could affect the auditors' objectivity and independence. The Board also receive an annual confirmation of independence from the auditors.

Nomination & Remuneration Committee

The Nomination & Remuneration Committee consists of Lord Sanderson (Chairman), Tim Paterson-Brown and G Campbell. The Committee's role is to consider and approve the nomination of directors and the remuneration and benefits of the executive Directors, including the award of share options. In framing the Company's remuneration policy, the Nomination & Remuneration Committee has given full consideration to Section B of The Combined Code.

Internal financial Control

The Board is responsible for establishing and maintaining the Company's system of internal financial control and places importance on maintaining a strong control environment. The key procedures which the Directors have established with a view to providing effective internal financial control are as follows:

- The Company's organisational structure has clear lines of responsibility.
- The Company prepares a comprehensive annual budget that is approved by the Board. Monthly results are reported against the budget and variances are closely monitored by the Directors.
- The Board is responsible for identifying the major business risks faced by the Company and for determining the appropriate courses of action to manage those risks.

The Directors recognise, however, that such a system of internal financial control can only provide reasonable, not absolute, assurance against material misstatement or loss. The Directors have initiated an internal process to undertake annual reviews of the effectiveness of the system of internal financial control operating across the Group.

Relations with shareholders

Communications with shareholders are given high priority.

There is regular dialogue with shareholders including presentations after the Company's preliminary announcement of the year end results. The board uses the Annual General Meeting to communicate with investors and welcomes their participation. The Chairman aims to ensure that the Directors are available at Annual General Meetings to answer questions.

Directors' responsibilities

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the group, for safeguarding the assets of the company, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a Directors' Report which complies with the requirements of the Companies Act 1985.

The directors are responsible for preparing the annual report and the financial statements in accordance with the Companies Act 1985. The directors are also required to prepare financial statements for the group in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs) and the rules of the

Corporate governance continued

London Stock Exchange for companies trading securities on the Alternative Investment Market. The directors have chosen to prepare financial statements for the company in accordance with UK Generally Accepted Accounting Practice.

Group financial statements

International Accounting Standard 1 requires that financial statements present fairly for each financial year the group's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. A fair presentation also requires the Directors to:

- consistently select and apply appropriate accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

Parent company financial statements

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 profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

Financial statements are published on the group's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the group's website is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Directors' attendance record

The attendance of individual directors at meetings of the Board and its committees in the year under review was as follows:

Number of meetings	Board		Audit Committee		Nominations & Remuneration Committee	
	Attended	Serving	Attended	Serving	Attended	Serving
Willy Paterson-Brown	14	14	2		3	
Stefan Allesch-Taylor (1)	3	14	0	2	0	1
Gordon Campbell	7	14	2	2	3	3
Finlay Morrison (2)	3	4	1		1	
Tim Paterson-Brown	8	14	2	2	3	3
Edward Pratt (3)	2	2	1			
Lord Sanderson (4)	4	4			2	2
Glyn Thomas	14	14	2		2	

Executive directors are not members of the Board Committees but attend by invitation

Figures in the left hand column denote the number of meetings attended and figures in the right hand column denote the number of meetings held whilst the individual held office.

Notes

- 1 resigned from Board on 9 May 2008
- 2 appointed to Board on 10 October 2007
- 3 resigned from Board on 26 June 2007
- 4 appointed to Board 16 August 2007

Accsys Technologies PLC

Auditors' report

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 2008 which comprise the consolidated income statement, the consolidated and company balance sheets, the consolidated cash flow statement, the consolidated statement of changes in equity 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 annual report and group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and for preparing the parent company 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. This other information comprises only the directors' report, the chairman's statement, the business review and the statement of corporate governance. 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 IFRSs as adopted by the European Union, of the state of the group's affairs as at 31 March 2008 and of its profit 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 2008;
- 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

18 June 2008

Accsys Technologies PLC

Consolidated income statement for the year ended 31 March 2008

	Note	2008 €'000	2007 €'000												
Revenue		27,328	50												
Cost of sales		(11,761)	-												
Gross profit		15,567	50												
<table> <tr> <td>General administrative expenses</td> <td></td> <td>(11,450)</td> <td>(9,853)</td> </tr> <tr> <td>Impairment of intangible fixed assets</td> <td></td> <td>-</td> <td>(5,850)</td> </tr> <tr> <td>Impairment of property, plant and equipment</td> <td></td> <td>-</td> <td>(6,569)</td> </tr> </table>				General administrative expenses		(11,450)	(9,853)	Impairment of intangible fixed assets		-	(5,850)	Impairment of property, plant and equipment		-	(6,569)
General administrative expenses		(11,450)	(9,853)												
Impairment of intangible fixed assets		-	(5,850)												
Impairment of property, plant and equipment		-	(6,569)												
Administrative expenses		(11,450)	(22,272)												
Profit/(loss) from operations	6	4,117	(22,222)												
Finance costs	7	-	(247)												
Finance income	8	1,328	284												
Profit/(loss) before taxation		5,445	(22,185)												
Tax expense	9	(1,364)	-												
Profit/(loss) attributable to equity holders of the parent		4,081	(22,185)												
Basic earnings/(loss) per ordinary share	10	€0.03	€(0.16)												
Diluted earnings/(loss) per ordinary share	10	€0.03	€(0.16)												
<table> <tr> <td colspan="4">Dividend per ordinary share</td> </tr> <tr> <td>Proposed €0.01 per share (2007: - €Nil)</td> <td>11</td> <td>1,553</td> <td>-</td> </tr> </table>				Dividend per ordinary share				Proposed €0.01 per share (2007: - €Nil)	11	1,553	-				
Dividend per ordinary share															
Proposed €0.01 per share (2007: - €Nil)	11	1,553	-												

The notes on pages 21 to 41 form part of these financial statements.

Accsys Technologies PLC

Consolidated balance sheet at 31 March 2008

	Note	2008 €'000	2007 €'000
Non-current assets			
Intangible assets	13	8,116	8,380
Property, plant and equipment	14	27,169	21,611
Available for sale investments	15	6,000	-
		<u>41,285</u>	<u>29,991</u>
Current assets			
Inventories	17	4,932	910
Trade and other receivables	18	5,100	1,085
Cash and cash equivalents		46,239	10,825
		<u>56,271</u>	<u>12,820</u>
Current liabilities			
Trade and other payables	19	8,731	3,102
Corporation tax		1,364	-
		<u>10,095</u>	<u>3,102</u>
Net current assets		<u>46,176</u>	<u>9,718</u>
Total net assets		<u>87,461</u>	<u>39,709</u>
Equity and reserves			
Share capital - Ordinary shares	20	1,553	1,406
Share capital - Deferred shares	20	148	148
Share premium account		78,076	35,689
Other reserves		106,707	106,707
Retained earnings		(99,023)	(104,241)
Equity attributable to equity holders of the parent		<u>87,461</u>	<u>39,709</u>

The financial statements were approved by the Board and authorised for issue on 18 June 2008

Glyn Thomas)	Directors
)	
Willy Paterson-Brown)	

The notes on pages 21 to 41 form part of these financial statements.

Accsys Technologies PLC

Consolidated statement of changes in equity for the year ended 31 March 2008

	Share capital €000	Share premium €000	Other Reserves €000	Retained Earnings €000	Total €000
Balance at 1 April 2006	1,473	25,504	106,707	(82,228)	51,456
Loss and total recognised income and expense for the period	-	-	-	(22,185)	(22,185)
Share based payments	-	-	-	172	172
Shares issued in the period	66	-	-	-	66
Share options exercised	15	-	-	-	15
Premium on shares issued	-	10,437	-	-	10,437
Share issue costs	-	(252)	-	-	(252)
Balance at 31 March 2007	<u>1,554</u>	<u>35,689</u>	<u>106,707</u>	<u>(104,241)</u>	<u>39,709</u>
Profit and total recognised income and expense for the period	-	-	-	4,081	4,081
Share based payments	-	-	-	1,137	1,137
Shares issued in the period	131	-	-	-	131
Share options exercised	16	-	-	-	16
Premium on shares issued	-	43,152	-	-	43,152
Share issue costs	-	(765)	-	-	(765)
Balance at 31 March 2008	<u>1,701</u>	<u>78,076</u>	<u>106,707</u>	<u>(99,023)</u>	<u>87,461</u>

Share capital is the amount subscribed for shares at nominal value (note 20).

Share premium represents the excess of the amount subscribed for share capital over the nominal value of these shares, net of share issue expenses. Share issue expenses comprise the costs in respect of the issue by the group of new shares. Costs allocated against the share premium include all of the fees relating to the issue of new shares.

Other reserves include merger reserve which arose prior to transition to IFRS when merger accounting was adopted, and it represents the difference between the nominal value of the shares issued by the acquirer and the nominal value of the shares and share premium of the company acquired.

Retained earnings represent the cumulative loss of the group attributable to the equity shareholders of the parent.

The notes on pages 21 to 41 form part of these financial statements.

Accsys Technologies PLC

Consolidated cash flow statement for the year ended 31 March 2008

	2008 €'000	2007 €'000
Profit/(loss) before taxation	5,445	(22,185)
<i>Adjustments for:</i>		
Amortisation of intangible assets	264	216
Depreciation of property, plant, and equipment	1,447	733
Impairment of property, plant and equipment	-	6,569
Impairment of intangible assets	-	5,850
Finance costs	-	247
Finance income	(1,328)	(284)
Equity-settled share-based payment expenses	1,137	172
Cash flows from operating activities before changes in working capital	<u>6,965</u>	<u>(8,682)</u>
(Increase)/decrease in trade and other receivables	(4,015)	20
(Increase) in inventories	(4,022)	(910)
Increase in trade and other payables	369	1,118
Cash absorbed by operating activities	<u>(703)</u>	<u>(8,454)</u>
Cash flows from investing activities		
Interest received	1,328	284
Disposal of financial assets at fair value through profit and loss	-	15,266
Decrease in other loans and receivables	-	7,306
Purchase of intangible assets	-	(200)
Purchase of available for sale investments	(6,000)	-
Purchase of property, plant and equipment	(1,745)	(18,220)
Net cash from investing activities	<u>(6,417)</u>	<u>4,436</u>
Cashflows from financing activities		
Proceeds from issue of share capital	43,299	10,518
Share issue costs	(765)	(252)
Net cash from financing activities	<u>42,534</u>	<u>10,266</u>
Net increase in cash and cash equivalents	35,414	6,248
Opening cash and cash equivalents	10,825	4,577
Closing cash and cash equivalents	<u>46,239</u>	<u>10,825</u>

The notes on pages 21 to 41 form part of these financial statements.

1 Accounting policies

Basis of preparation

The Group's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board as endorsed by the European Union and with those parts of the Companies Act 1985 applicable to companies preparing their accounts under IFRS for the first time. The disclosures required by IFRS 1 concerning the transition from UK GAAP to IFRS are given in the Transition to International Financial Reporting Standards table in note 2. The Company has elected to prepare its parent company financial statements in accordance with UK Generally Accepted Accounting Practice (UK GAAP). These are presented on page 43.

New standards, amendments to published standards and interpretations to existing standards effective in respect of the year ended 31 March 2008 adopted by the group.

- IFRS7/IAS 1 - Financial Instruments: Disclosures and complimentary amendments to IAS 1 Presentation of financial statements – Capital disclosures (effective for periods beginning on or after 1 January 2007).
- IFRIC 8 - Scope of IFRS 2 (effective for periods beginning on or after 1 May 2006).
- IFRIC 9 - Reassessment of embedded derivatives (effective for periods beginning on or after 1 June 2006).
- IFRIC 10 - Interim Financial Reporting and Impairment (effective for periods beginning 1 November 2006).
- IFRIC 11 – IFRS 2 group and treasury shares transactions (effective for periods beginning 1 March 2007).

IFRS 7 introduces new disclosures of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk. The amendment to IAS 1 introduces disclosures about the level of an entity's capital. The relevant disclosures are shown in note 20.

New standards and interpretations in issue but not yet effective at the date of authorisation of these financial statements:

- IAS 1 - Amendments to presentation of financial statements (effective for periods beginning on or after 1 January 2009).
- IAS 1 - Amendments to presentation of financial statements - puttable financial instruments and obligations arising on liquidation (effective for periods beginning on or after 1 January 2009).
- IAS 23 - Amendments to borrowing costs (effective for periods beginning on or after 1 January 2009).
- IAS 27 - Amendments to consolidated and separate financial statements (effective for periods beginning on or after 1 July 2009).
- IAS 32 - Amendments to financial instruments: Presentation (effective for periods beginning on or after 1 January 2009).
- IFRS 2 - Share-based payment: Vesting conditions and cancellations (effective for periods commencing 1 January 2009).
- IFRS 3 - Business combinations: Revised (effective for periods beginning on or after 1 July 2009).
- IFRS 8 - Operating segments (effective for periods beginning on or after 1 January 2009).
- IFRIC 12 - Service concession agreements (effective for periods beginning on or after 1 January 2008).
- IFRIC 13 - Customer loyalty programmes (effective for periods beginning on or after 1 July 2008).
- IFRIC 14 - IAS 19 The limit on a defined benefit asset, minimum funding requirements and their interaction (effective for periods beginning on or after 1 January 2008).

Entities in EU Member States can only apply IFRSs or IFRICs that have been endorsed by the European Union. Of the standards and interpretations listed above IAS1, IAS 23, IAS 27, IAS 32, IFRS 2, IFRS 3, IFRIC 12, IFRIC 13 and IFRIC 14 had not yet been endorsed by the European Union at the date these financial statements were authorised for issue. They are expected to be endorsed during 2008.

The directors anticipate that the adoption of these standards and interpretations in future periods will have no material impact on the financial statements of the group.

The accounting policies set out below have, unless otherwise stated, been applied consistently in these financial statements.

Basis of consolidation

Where the Company has the power, either directly or indirectly, to govern the financial and operating policies of another entity or business so as to obtain benefits from its activities, it is classified as a subsidiary. The consolidated financial statements present the results of the Group as if they formed a single entity. Inter-company transactions and balances between Group companies are therefore eliminated in full.

The consolidated financial statements incorporate the results of business combinations using the purchase method. In the consolidated balance sheet, the acquiree's identifiable assets, liabilities, and contingent liabilities are initially recognised at their fair values at the acquisition date. The results of acquired operations are included in the consolidated income statement from the date on which control is obtained.

Revenue recognition

Revenue is measured at the fair value of the consideration receivable. Revenue is recognised to the extent that it is probable that the economic benefit will flow to the Group and that the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Sale of goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer.

Royalty and licence fee income

Royalty and licence fee income is recognised over the period of the relevant agreements according to the specific terms of each agreement or the quantities and/or values of the licensed product sold. Initial "up front" income received, which is non-refundable, is recognised on a straight line basis over the period of the agreement or pro-rata to the volume or value of sales according to the specific terms of the agreement. The amount of income not recognised is included in the financial statements as deferred income and shown as a liability.

The accounting policy for the recognition of technology license fees is based upon an assessment of the work required before the licence is signed and subsequently during the construction and commissioning of the licensees' plant, with an appropriate proportion of the fee recognised upon signing and the balance recognised as the project progresses to completion.

Similarly, when an "up front" non refundable agency premium is received from an agent, this is recognised upon signing of a technology licence negotiated by the agent, pro rata to the capacity signed and the capacity under

1 Accounting policies continued

the agency agreement. Where a negotiated licensee signs a licence option agreement in advance of the technology licence, an assessment of the work completed is undertaken to determine the proportion of the agency premium that may be recognised in respect of such licence options. Currently, the proportion of the agency premium assessed as recognisable upon signing a licence option is 20 per cent.

Interest income

Revenue recognised as interest accrues using the effective interest method, i.e. the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Share based payments

The Company awards share options to certain directors and employees to acquire shares of the Company. The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and is charged to the income statement over the vesting period during which the employees become unconditionally entitled to the options.

The fair value of the options granted is measured using a modified Black Scholes model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest only where vesting is dependent upon the satisfaction of service and non-market vesting conditions.

Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each balance sheet date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options which eventually vest. Market vesting conditions are factored into the fair value of the options granted. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

Dividends

Equity dividends are recognised when they become legally payable. Interim equity dividends are recognised when paid. Final equity dividends are recognised when approved by the shareholders at an annual general meeting.

Pensions

The Group contributes to certain defined contribution pension and employee benefit schemes on behalf of its employees. These costs are charged to the income statement on an accruals basis.

Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date together with any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for:-

- the initial recognition of goodwill,
- the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and
- differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

Recognition of deferred tax assets is restricted to those instances where it is probable that taxable profit will be available against which the difference can be utilised.

Foreign currency translation

The consolidated financial statements are presented in Euro, which is also the functional currency of all group companies. Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

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 subject to annual impairment reviews by the directors. Any impairment arising is charged to the income statement.

Intangible assets

Intellectual property rights, including patents, which cover a portfolio of novel chemical processes and products, are shown in the financial statements at cost less any amounts by which the carrying value is assessed during an annual review to have been impaired. No amortisation charge is made until plants licensed to exploit the intellectual property are available for use, thereafter the carrying value is amortised in equal amounts over the useful economic life of the intellectual property. At present, the useful economic life of the intellectual property is up to a maximum of 20 years.

1 Accounting policies continued

Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation and any impairment charged. 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 on a straight line basis, as follows:

Property, plant and equipment	These assets comprise pilot plants and production facilities. The pilot plants are designed to validate technology designs and generally have short lives, with depreciation rates between 33% and 50%. Production facilities are depreciated from the date they become available for use at rates applicable to the asset lives expected for each class of asset, with rates between 5% and 20%.
Office equipment	Between 20% and 50%.

Impairment

The carrying amount of the non-current assets of the Group is compared to the recoverable amount of the assets whenever events or changes in circumstances indicate that the net book value may not be recoverable. The recoverable amount is the higher of value in use and the fair value less cost to sell. In assessing the value in use, the expected future cash flows from the assets are determined by applying a discount rate to the anticipated pre-tax future cash flows. An impairment is recognised in the income statement to the extent that the carrying amount exceeds the assets' recoverable amount. The revised carrying amounts are amortised in line with Group accounting policies. A previously recognised impairment loss, other than on goodwill, is reversed if the recoverable amount increases as a result of a reversal of the conditions that originally resulted in the impairment. This reversal is recognised in the income statement and is limited to the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised in prior years. Assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units) for purposes of assessing impairment. The estimates of future discounted cash flows are subject to risks and uncertainties. It is therefore reasonably possible that changes could occur which may affect the recoverability of assets.

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement, and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. At present the group has no finance leases.

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

Inventories

Raw materials, which consist of unprocessed timber, chemicals and various materials used in manufacturing operations are valued at the lower of cost and net realisable value. The basis on which cost is derived is a first-in, first-out basis.

Finished goods, comprising processed timber, are stated at the lower of weighted average cost of production or net realisable value. Costs include direct materials, direct labour costs and production overheads (including the depreciation/depletion of relevant property and plant and equipment) absorbed at an appropriate level of capacity utilisation. Net realisable value represents the estimated selling price less all expected costs to completion and costs to be incurred in selling and distribution.

Financial assets

Other financial assets are classified as financial assets at fair value through profit or loss, available for sale investments and loans and receivables, depending on the purpose for which the asset was acquired. When financial assets are recognised initially, they are measured at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. Financial assets at fair value through profit or loss are carried in the balance sheet at fair value with changes in fair value recognised in the consolidated income statement.

Unlisted shares held by the group are classified as available for sale investments and are stated at fair value. Gains and losses arising from changes in fair value are recognised directly in equity in the investment revaluation reserve, with the exception of impairment losses which are recognised directly in profit or loss. Where investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the investment revaluation reserve is included in profit or loss in the year.

Loans and receivables, which comprise non-derivative financial assets with fixed and determinable payments that are not quoted on an active market are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

Trade and other receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. They arise principally from the provision of goods and services to customers.

Trade receivables are initially recognised at fair value less an allowance for any uncollectible amounts. A provision for impairment is made when there is objective evidence that the group will not be able to collect debts. Bad debts are written off when identified.

Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less. For the purpose of the consolidated cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Financial liabilities

Other financial liabilities

Trade payables are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

Share capital

Financial instruments issued by the group are treated as equity only to the extent that they do not meet the definition of a financial liability. The group's shares are classified as equity instruments.

1 Accounting policies continued

Accounting estimates and judgments

In preparing the Consolidated Financial Statements, management has to make judgments on how to apply the Group's accounting policies and make estimates about the future. The critical judgments that have been made in arriving at the amounts recognised in the Consolidated Financial Statements and the key sources of estimation and uncertainty that have a significant risk of causing a material adjustment to the carrying value of assets and liabilities in the next financial year, are discussed below:

Revenue recognition

The Group has considered the criteria for the recognition of royalty and licence fee income over the period of the agreement and is satisfied that the recognition of such revenue in the current year is appropriate. The recognition of technology license fees is based upon an assessment of the work required before the licence is signed and subsequently during the construction and commissioning of the licensees' plant, with an appropriate proportion of the fee recognised upon signing and the balance recognised as the project progresses to completion.

Share based payments

The calculation of the cost of share based payments requires assumptions to be made in respect of the expected life of share options, volatility of shares, risk free rate and the expected dividend yield.

Goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated above. The recoverable amounts of cash-generating units have been determined based on value in use calculations. These calculations require the use of estimates.

Intellectual property rights and property, plant and equipment

The Group tests the carrying amount of the intellectual property rights and property, plant and equipment whenever events or changes in circumstances indicate that the net book value may not be recoverable. These calculations require the use of estimates in respect of future cashflows from the assets by applying a discount rate to the anticipated pre-tax future cashflows. The Group also reviews the estimated useful lives at the end of each annual reporting period.

Inventories

The Group reviews the net realisable value of, and demand for, its inventory on a monthly basis to provide assurance that recorded inventory is stated at the lower of cost and net realisable value.

2 Transition to International Financial Reporting Standards (IFRS's)

The Group's transition date for the adoption of IFRS is 1 April 2006. This transition date has been selected in accordance with IFRS 1 'First-time adoption of International Financial Reporting Standards'. The Group has also adopted IAS 32 'Financial Instruments: Disclosure and Presentation' and IAS 39 'Financial Instruments: Recognition and Measurement' from 1 April 2006.

The principal difference between reporting under IFRS as compared to UK GAAP as at 31 March 2008 is not to amortise goodwill but instead test for impairment.

The application of IFRS has also changed the presentation of the cash flow statement which now shows cash flows derived from three types of activities – operating, investing and financing. In addition, under IFRS, the cash flow statement includes all cash flows in respect of cash and cash equivalents. This is a broader definition of cash than under UK GAAP.

As a general rule, the Group is required to establish its IFRS accounting policies for the year ended 31 March 2008 and apply these retrospectively to determine its opening IFRS balance sheet at the transition date of 1 April 2006 and the comparative information for the year ended 31 March 2007. However, advantage has been taken of certain exemptions afforded by IFRS 1 'First-time adoption of International Financial Reporting Standards' as follows:

- Business combinations prior to 1 April 2006 have not been restated.

The Group has applied IFRS 2 'Share-based Payment' retrospectively only to awards made after 7 November 2002 that had not vested at 1 April 2006.

In preparing the IFRS accounts, the Group has adjusted amounts reported previously in the financial statements prepared in accordance with UK GAAP. An explanation of how the transition has affected the Group's financial performance and position is set out in the following tables:

	1 April 2006 €'000	31 March 2007 €'000
<i>Reconciliation of equity</i>		
Total net assets/Shareholders' funds under UK GAAP	50,925	38,766
Goodwill amortisation added back	531	943
	<hr/>	<hr/>
Total equity under IFRS	51,456	39,709
	<hr/> <hr/>	<hr/> <hr/>
<i>Reconciliation of loss</i>		
Loss for the period under UK GAAP		(22,597)
Goodwill amortisation added back		412
		<hr/>
Loss under IFRS		(22,185)
		<hr/> <hr/>

3 Segmental reporting

The Group operates in one business segment - the development and commercialisation of proprietary technology for the manufacture of Accoya branded acetylated wood and related process technologies with potential applications in the wood and chemical industries.

Analysis of revenue by geographical area

	2008 €'000	2007 €'000
Europe	4,210	-
Asia	23,118	50
	<u>27,328</u>	<u>50</u>

The segmental assets in the current year and the previous year were predominantly held in Europe. Additions to property, plant and equipment and intangible assets in the current year and the previous year were incurred in Europe.

4 Employees

	2008 €'000	2007 €'000
Staff costs (including directors) consist of:		
Wages and salaries	4,195	2,392
Social security costs	916	606
Other pension costs	206	89
Share based payments	1,137	172
	<u>6,454</u>	<u>3,259</u>

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

	Number	Number
Administration	29	17
Operating	29	18
	<u>58</u>	<u>35</u>

5 Directors' remuneration

	2008	2007
	€'000	€'000
Directors' remuneration consists of:		
Directors' emoluments	1,113	725
Gains on exercise of share options	1,736	2,556
Company contributions to money purchase pension schemes	62	64
Amounts paid to third parties in respect of directors' services	712	407
	<u>3,623</u>	<u>3,752</u>

Emoluments disclosed above include the following amounts paid to the highest paid director:

Emoluments for qualifying services	65	369
Gains on exercise of share options	1,736	1,534
Company contributions to money purchase pension schemes	5	21
	<u>5</u>	<u>21</u>

The group makes contributions to 3 (2007: 2) directors' personal pension plans.

Out of the share based payments charge (note 5) €570,000 (2007: €107,000) relates to the directors.

6 Profit/(loss) from operations

	2008	2007
	€'000	€'000
This has been arrived at after charging:		
Staff costs	6,454	3,259
Depreciation of property, plant and equipment	1,447	733
Impairment of property, plant and equipment	-	6,569
Amortisation of intangible assets	264	216
Impairment of intangible assets	-	5,850
Operating lease rentals	327	361
Audit fees in respect of the accounts of the company	53	29
Audit fees in respect of the audit of the subsidiaries	65	51
Euronext Amsterdam listing expenses	1,252	-
Foreign exchange costs	72	7
	<u>72</u>	<u>7</u>

Included in Euronext Amsterdam listing expenses are corporate finance fees of €283,000 paid to the auditors.

7 Finance costs

	2008	2007
	€'000	€'000
Change in fair value of financial assets classified as at fair value through profit or loss	-	(247)
	<u>-</u>	<u>(247)</u>

8 Finance income

	2008 €'000	2007 €'000
Interest receivable on bank and other deposits	1,328	284

9 Tax expense

	2008 €'000	2007 €'000
<i>Current tax</i>		
UK corporation tax	1,364	-
Factors affecting the corporation tax charge for the year		
Profit/(loss) before tax	5,445	(22,185)
Profit/(loss) before tax at the standard rate of corporation tax in the UK of 30% (2007 - 30%)	1,634	(6,656)
Effects of:		
Expenses not deductible for tax purposes	820	1,859
Other differences	7	(233)
Relief for gain on employee share options	(1,358)	-
Increase in tax losses in overseas subsidiaries	2,226	5,030
Utilisation of previously unrecognised losses	(1,965)	-
Current tax charge for year	1,364	-

Deferred tax

The potential deferred tax assets of the Group calculated using a tax rate of 28% (2007: 30%) 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.

	2008 €'000	2007 €'000
Tax losses in overseas subsidiaries carried forward	8,330	6,699
UK tax losses carried forward	-	2,240
Excess of depreciation over capital allowances	130	179
	8,460	9,118

10 Earnings/(loss) per share

The calculation of earnings per ordinary share is based on earnings after tax and the weighted average number of ordinary shares in issue during the year.

To calculate the diluted earnings per share, the weighted average number of ordinary shares is adjusted to assume conversion of all potentially dilutive ordinary shares. The Group has only one class of dilutive potential ordinary shares being share options granted to employees.

Basic earnings/(loss) per share	2008	2007
Weighted average number of Ordinary shares in issue ('000)	151,112	135,217
Earnings/(loss) for the year (€'000)	4,081	(22,185)
Basic earnings/(loss) per share	<u>€ 0.03</u>	<u>€(0.16)</u>
Diluted earnings/(loss) per share	2008	2007
Weighted average number of Ordinary shares in issue ('000)	155,070	135,217
Earnings/(loss) for the year (€'000)	4,081	(22,185)
Basic earnings/(loss) per share	<u>€ 0.03</u>	<u>€(0.16)</u>

The earnings used in the calculation of diluted earnings per share are the same as those for the equivalent basic earnings per share calculation.

The weighted average number of ordinary shares for the purposes of diluted earnings per share reconciles to the weighted average number of ordinary shares used in the calculation of basic earnings per share are as follows:

	2008	2007
Weighted average number of ordinary shares used in the calculation of basic earnings per share	151,112	135,217
Share options	3,958	-
Weighted average number of ordinary shares used in the calculation of diluted earnings per share	<u>155,070</u>	<u>135,217</u>

Notes to the financial statements for the year ended 31 March 2008 continued

11 Dividends

	2008	2007
	€'000	€'000
Dividend per ordinary share		
Proposed €0.01 per share (2007: €Nil)	1,553	-

12 Share based payments

Options granted on 1 March 2005 at an exercise price of €0.46 per Ordinary share fully vested during the year. These options may be exercised until 30 March 2015. At 31 March 2008, 2,438,640 of these options were outstanding.

Options granted on 14 June 2006 at an exercise price of €1.20 per Ordinary share vested immediately but are not exercisable before 14 June 2009. These options may be exercised until 14 June 2016. At 31 March 2008, 438,500 of these options were outstanding.

Options granted on 28 March 2007 at an exercise price of €2.59 per Ordinary share vest as to one third of the options granted upon achievement of each of the following:

- Cumulative €5 million licence income recognised under group accounting policies
- Cumulative €20 million revenue from sales of Accoya
- Announcement of annual group distributable earnings exceeding €5 million

Once vested, these options may be exercised until 31 March 2017. At 31 March 2008, 5,072,000 of these options were outstanding.

Options granted on 15 May 2007 at an exercise price of €3.84 per ordinary share vest to one third of the options granted upon achievement of each of the following:

- Cumulative €5 million licence income recognised under group accounting policies
- Cumulative €20 million revenue from sales of Accoya
- Announcement of annual group distributable earnings exceeding €5 million

Once vested, these options may be exercised until 15 May 2017. At 31 March 2008, 1,250,000 of these options were outstanding.

Options granted on 11 October 2007 at an exercise price of €3.80 per ordinary share vest to one third of the options granted upon achievement of each of the following:

- Cumulative €15m revenue from sales of Accoya
- Announcement of annual group distributable earnings exceeding €15 million.
- Cumulative €75m gross licence revenue recognised under group accounting policies.

Once vested these options may be exercised until 11 October 2017. At 31 March 2008, 1,000,000 of these options were outstanding.

Options granted on 20 November 2007 at an exercise price of €3.65 per ordinary share vest to one third of the options granted upon achievement of each of the following:

- Annual Accoya production exceeds 23,000m³ in a financial year.
- Annual Accoya sales revenue exceeds €26 million in financial year.
- The second pair of reactor in the wood modification plant are processing more than 25 batches per month.

Once vested these options may be exercised until 20 November 2017. At 31 March 2008, 376,000 of these options were outstanding.

Unless discretion is exercised by the Nomination & Remuneration Committee, all options are forfeit following an optionholders termination of contract.

Outstanding options granted under the share option scheme are as follows:

Date of grant	Number of outstanding options at 31 March		Weighted average remaining contractual life, in years		Option price
	2008	2007	2008	2007	
1 March 2005	2,438,640	4,129,000	6.9	7.9	€ 0.46
14 June 2006	438,500	438,500	8.2	9.2	€ 1.20
28 March 2007	5,072,000	5,093,000	9.0	10.0	€ 2.59
15 May 2007	1,250,000		9.1		€ 3.84
11 October 2007	1,000,000		9.5		€ 3.80
20 November 2007	376,000		9.6		€ 3.65

Movements in the weighted average values are as follows:

	2008 Weighted average exercise price	2008 Number	2007 Weighted average exercise price	2007 Number
Outstanding at 1 April	€ 1.62	9,660,500	€ 0.46	5,688,000
Granted during the year	€ 3.79	2,626,000	€ 2.48	5,531,500
Exercised during the year	€ 0.46	(1,574,160)	€ 0.46	(1,559,000)
Expired during the year	€ 0.78	(137,200)		
Outstanding at 31 March	<u>€ 2.34</u>	<u>10,575,140</u>	<u>€ 1.62</u>	<u>9,660,500</u>

The exercise price of options outstanding at the end of the year ranged between €0.46 and €3.84 (2007: €0.46 and €2.59) and their weighted average contractual life was 8.6 years (2007: 9.1 years).

Of the total number of options outstanding at the year end, 4,545,973 (2007: 1,285,000) had vested and were exercisable at the end of the year.

The weighted average share price (at the date of exercise) of options exercised during the year was €3.84 (2007: €2.37).

The weighted average fair value of each option granted during the year was €0.45 (2007:€0.33).

The fair value of executive share options granted during the year is calculated based on a modified Black-Scholes model assuming inputs shown below:

Grant date	20 Nov 07	10 Oct 07	15 May 07	28 Mar 07	14 Jun 06
Share price at grant date	€ 3.65	€ 3.80	€ 3.84	€ 2.59	€ 1.20
Exercise price	€ 3.65	€ 3.80	€ 3.84	€ 2.59	€ 1.20
Expected life	3	3	3	3	3
Contractual life	10	10	10	10	10
Risk free rate	4.68%	5.11%	5.40%	4.92%	4.63%
Expected volatility	28%	15%	15%	15%	15%
Expected dividend yield	1.3%	1.3%	1.3%	0.0%	0.0%
Fair value of option	€ 0.427	€ 0.467	€ 0.454	€ 0.290	€ 0.098

12 Share based payments continued

Volatility has been estimated by reference to the historic volatility since October 2005 when the Company's shares were listed on AiM. The resulting fair value is expensed over the vesting period of the options on the assumption that a proportion of options will lapse over the service period as employees leave the Group.

13 Intangible assets

	Intellectual property rights €'000	Goodwill €'000	Total €'000
<i>Cost</i>			
At 31 March 2006	73,000	4,231	77,231
Additions	200	-	200
	<hr/>	<hr/>	<hr/>
At 31 March 2007	73,200	4,231	77,431
	<hr/>	<hr/>	<hr/>
Movements	-	-	-
	<hr/>	<hr/>	<hr/>
At 31 March 2008	<u>73,200</u>	<u>4,231</u>	<u>77,431</u>
<i>Amortisation</i>			
At 31 March 2006	62,985		62,985
Amortisation	216	-	216
Impairment	5,850	-	5,850
	<hr/>	<hr/>	<hr/>
At 31 March 2007	69,051	-	69,051
Amortisation	264	-	264
	<hr/>	<hr/>	<hr/>
At 31 March 2008	<u>69,315</u>	<u>-</u>	<u>69,315</u>
<i>Net book value</i>			
At 31 March 2008	<u>3,885</u>	<u>4,231</u>	<u>8,116</u>
At 31 March 2007	<u>4,149</u>	<u>4,231</u>	<u>8,380</u>

The carrying value of intellectual property rights and goodwill on consolidation have been allocated for impairment testing purposes to one cash generating unit being the Group's wood operations. The recoverable amount of intellectual property rights and goodwill relating to this operation is determined based on a value in use calculation which uses cashflow projections based on financial budgets approved by management covering a three year period and a post tax discount rate of 10% per annum. The key assumption used in the value in use calculations are the level of future license fees estimated by management over the budget period.

In the year ended 31 March 2007, the intellectual property rights in relation to fibre technology were fully impaired.

14 Property, plant and equipment

	Freehold land €'000	Plant and machinery €'000	Office equipment €'000	Total €'000
<i>Cost or valuation</i>				
At 31 March 2006	950	10,490	40	11,480
Additions	329	17,774	117	18,220
Disposals	-	(134)	(4)	(138)
	<u>1,279</u>	<u>28,130</u>	<u>153</u>	<u>29,562</u>
At 31 March 2007	1,279	28,130	153	29,562
Additions	5,486	1,411	108	7,005
	<u>6,765</u>	<u>29,541</u>	<u>261</u>	<u>36,567</u>
At 31 March 2008	<u>6,765</u>	<u>29,541</u>	<u>261</u>	<u>36,567</u>
<i>Depreciation</i>				
At 31 March 2006	-	768	19	787
Charge for the year	-	683	50	733
Impairment	-	6,569	-	6,569
Disposals	-	(134)	(4)	(138)
	<u>-</u>	<u>7,886</u>	<u>65</u>	<u>7,951</u>
At 31 March 2007	-	7,886	65	7,951
Charge for the year	-	1,359	88	1,447
	<u>-</u>	<u>9,245</u>	<u>153</u>	<u>9,398</u>
At 31 March 2008	<u>-</u>	<u>9,245</u>	<u>153</u>	<u>9,398</u>
<i>Net book value</i>				
At 31 March 2008	<u>6,765</u>	<u>20,296</u>	<u>108</u>	<u>27,169</u>
At 31 March 2007	<u>1,279</u>	<u>20,244</u>	<u>88</u>	<u>21,611</u>

15 Other financial assets

	2008 €'000	2007 €'000
Available for sale investments carried at fair value	<u>6,000</u>	<u>-</u>

On 11 December 2007, Accsys Technologies PLC purchased 133,334 unlisted ordinary shares in Diamond Wood China Limited for €45 each.

There is no active market in respect of the unlisted shares, therefore the fair value of unlisted shares is based on recent arm's length market transactions between knowledgeable and willing parties.

Notes to the financial statements for the year ended 31 March 2008 continued

16 Subsidiaries

A list of subsidiary investments, including the name, country of incorporation and proportion of ownership interest is given in note 3 to the company's separate financial statements.

17 Inventories

	2008 €'000	2007 €'000
Materials and work in progress	2,399	898
Finished goods	2,533	12
	<u>4,932</u>	<u>910</u>

The amount of inventories recognised as an expense during the year was €3,413,000 (2007: €nil). The cost of inventories recognised as an expense includes €207,000 (2007: €nil) in respect of write down of inventories to net realisable value.

18 Trade and other receivables

	2008 €'000	2007 €'000
Trade receivables	4,448	-
Other receivables	147	906
Prepayments and accrued income	505	179
	<u>5,100</u>	<u>1,085</u>

All trade and other receivables are short-term debt. The difference between the carrying value and fair value of all receivables is not considered to be material. All trade and other receivables have been reviewed for indicators of impairment but no provision is considered necessary. However, some of the trade receivables are past due but have not been impaired at the reporting date. These relate to customers where we have no history of default and no concerns over their financial position. The age of receivables past due but not impaired is as follows:

	2008 €'000	2007 €'000
Up to 30 days overdue	240	-
Over 30 days and up to 60 days overdue	177	-
Over 60 days and up to 90 days overdue	72	-
Over 90 days overdue	2	-
	<u>491</u>	<u>-</u>

19 Trade and other payables

	2008 €'000	2007 €'000
Trade payables	1,980	1,938
Other taxes and social security payable	163	470
Accruals and deferred income	6,588	694
	<u>8,731</u>	<u>3,102</u>

20 Share capital

	2008 €'000	2007 €'000
<i>Authorised</i>		
<i>Equity share capital</i>		
200,000,000 ordinary shares of €0.01 each	2,000	2,000
1,000,000 deferred shares of 10p each	148	148
	<u>2,148</u>	<u>2,148</u>
<i>Allotted</i>		
<i>Equity share capital</i>		
155,335,662 (2007: 140,645,619) ordinary shares of €0.01 each	1,553	1,406
1,000,000 deferred shares of 10p each	148	148
	<u>1,701</u>	<u>1,554</u>

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.

On 21 May 2007, 8,115,883 new ordinary shares were issued to Celanese Corporation at a price of €2.72 each for a cash consideration of €22,075,000.

On 18 September 2007, the company placed 5,000,000 new ordinary shares which were listed on Euronext Amsterdam at a price of €4.10 each, raising €18,483,000 after expenses.

Options over 1,574,160 Ordinary shares were exercised during the year at a price of €0.46 each. Details of outstanding options granted over Ordinary shares in the Company are set out in Note 11.

21 Commitments under operating leases

The Group leases land and buildings under non-cancellable operating lease agreements. The total future value of the minimum lease payments that are due is as follows:

	2008 €'000	2007 €'000
Operating leases which expire:		
Not later than one year	315	315
Later than one year and not later than five years	315	630
	<u>630</u>	<u>945</u>

22 Financial instruments

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders.

The capital structure of the Group consists of cash and cash equivalents and equity attributable to equity holders of the parent, comprising share capital, reserves and retained earnings.

The Board reviews the capital structure on a regular basis. As part of that review, the Board considers the cost of capital and the risks associated with each class of capital. Based on the review, the Group will balance its overall capital structure through new share issues and raising of debt if required.

Categories of financial instruments	2008 €'000	2007 €'000
Available for Sale investments	6,000	-
Loans and receivables		
Trade receivables	4,448	-
Money market deposits in Euro	39,417	9,580
Money at call in Euro	6,684	1,220
Money at call in US dollars	69	-
Money at call in sterling	69	25
Financial liabilities		
Trade payables	(1,980)	(1,938)
	<u>54,707</u>	<u>8,887</u>

All financial assets have interest rates fixed for less than nine months at a weighted average rate of 4.28% (2007: 3.12%).

At the balance sheet date, the Group has financial liabilities of €1,980,000 (2007: €1,938,000) comprising trade payables.

Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates.

Financial risk management objectives

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.

Foreign currency risk management

Currency exposures are limited as the Group's functional currency is the Euro. A minor proportion of expenditure is incurred in US dollars and pounds sterling.

Interest rate risk management

The Group has no borrowings therefore it is not exposed to interest rate risk in relation to financial liabilities. Surplus funds are invested in short term interest rate deposits to reduce exposure to changes in interest rates. The Group does not enter into any hedging arrangements.

Credit risk management

The Group is exposed to credit risk due to its trade receivables due from customers and cash deposits with financial institutions. The Group's exposure to credit risk is limited to their carrying amount recognised at the balance sheet date.

The Group ensures that sales are made to customers with an appropriate credit history to reduce the risk where this is considered necessary. The directors consider the trade receivables to be of good credit quality including those that are past due (note 18). The Group is not exposed to any significant credit risk exposure to any single counterparty or any group of counterparties with similar characteristics.

The Group has no significant concentrations of credit risk from financial institutions. Cash deposits are placed with a group of financial institutions with suitable credit ratings in order to manage credit risk with any one financial institution.

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Board, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves and banking facilities by continuously monitoring forecast and actual cash flows and matching the maturity profile of financial assets and liabilities.

Fair value of financial instruments

In the opinion of the directors, there is no material difference between the book value and the fair value of other financial assets and financial liabilities.

23 Related party transactions

Mr William Paterson-Brown is a director of Khalidiya Investments SA. During the year the Group paid Khalidiya Investments SA €712,118 (2007: €406,795) in respect of directors services, and €223,722 (2007:€122,395) in respect of travel expenses for a number of employees. In addition, Mr William Paterson-Brown is a director of Zica SA. During the year the Group paid Zica SA €247,737 (2007:€37,997) in respect of office and related costs in Geneva and Dallas.

Accsys Technologies PLC

Notes to the financial statements for the year ended 31 March 2008 continued

24 Capital commitments

	2008 €'000	2007 €'000
Contracted but not provided for	-	1,776

1 Accounting policies

The financial statements have been prepared under the historical cost convention and in accordance with United Kingdom applicable accounting standards. The following principal accounting policies have, been applied:

Investments

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

Share based payments

The company has adopted UITF 44 in the current year. When the parent entity grants options over equity instruments directly to the employees of a subsidiary undertaking, then in the parent company financial statements the effect of the share based payment, as calculated in accordance with FRS 20, is capitalised as part of the investment in the subsidiary as a capital contribution, with a corresponding increase in equity.

The fair value of the options granted is measured using a modified Black Scholes model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest only where vesting is dependent upon the satisfaction of service and non-market vesting conditions.

Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each balance sheet date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options which eventually vest. Market vesting conditions are factored into the fair value of the options granted. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

Deferred taxation

Deferred taxation 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 company anticipates making sufficient taxable profits in the future to absorb the reversal of the underlying timing differences. Deferred tax balances are not discounted.

Related party transactions

The company has taken advantage of the exemption available under FRS 8, "Related Party Disclosure", not to disclose transactions between group companies.

Cashflow statement

The company has taken advantage of the exemption in FRS 1, "Cashflow Statement", and has not produced a cashflow statement as it is a member of a group which prepares a consolidated cashflow statement.

Available for Sale investments

Unlisted shares held by the group are classified as available for sale investments and are stated at fair value. Gains and losses arising from changes in fair value are recognised directly in equity in the investment

1 Accounting policies continued

revaluation reserve, with the exception of impairment losses which are recognised directly in profit or loss. Where investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the investment revaluation reserve is included in profit or loss in the year.

2 Profit and loss account

A loss of €677,000 (2007: profit of € 6,195,000, including the gain realised on liquidation of the former holding company) is dealt with in the accounts of Accsys Technologies PLC. The Directors have taken the advantage of the exemption available under section 230 of the Companies Act 1985, and not presented a profit and loss account for the company. Audit fees payable to the Group's auditors were €53,000 (2007: €29,000).

3 Employees

The company had no employees other than directors during the current or prior year. Non-executive directors received emoluments in respect of their services to the company of €110,000 (2007: €85,000). The company did not operate any pension schemes during the current or preceding year.

4 Investment in subsidiaries

	€'000
<i>Cost</i>	
At 1 April 2007	10,180
Increase in investment in subsidiary	1,000
Share based payments	1,137
	<hr/>
At 31 March 2008	12,317
	<hr/> <hr/>
<i>Impairment</i>	
At 1 April 2007 and at 31 March 2008	4,180
	<hr/> <hr/>
<i>Net book value</i>	
At 31 March 2008	8,137
	<hr/> <hr/>
At 31 March 2007	6,000
	<hr/> <hr/>

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 Limited	Gibraltar	Ordinary	100
Titan Wood Technology 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.

4 Investments in subsidiary undertakings continued

The principal activities of these companies were as follows:

International Cellulose Company Limited (formerly 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 and production of acetic anhydride.
Titan Wood Technology BV (formerly International Chemical Company BV)	The provision of technical and engineering services to licensees, and the technical development of fibre board opportunities.
Titan Wood BV	The manufacture of Accoya, acetylated wood.
Titan Wood Limited	Establishing global market penetration of Accoya as the premium wood for external applications requiring durability, stability and reliability through the licensing of the Group's proprietary process for wood acetylation.

5 Other investments

	2008 €'000	2007 €'000
Available for sale investments carried at fair value	6,000	-

On 11 December 2007, the Company purchased 133,334 Ordinary shares in Diamond Wood China Limited for €45 each.

There is no active market in respect of the unlisted shares, therefore the fair value of unlisted shares is based on recent arm's length market transactions between knowledgeable and willing parties.

6 Debtors

	2008 €'000	2007 €'000
Amounts owed by subsidiary undertakings	38,870	38,638
Prepayments and accrued income	290	30
	<u>39,160</u>	<u>38,668</u>

7 Creditors: amounts falling due within one year

	2008 €'000	2007 €'000
Trade creditors	19	134
Amounts owed to subsidiary undertakings	3,228	3,432
Corporation tax	258	-
Accruals and deferred income	22	15
	<u>3,527</u>	<u>3,581</u>

8 Share capital

	2008 €'000	2007 €'000
<i>Authorised</i>		
<i>Equity share capital</i>		
200,000,000 ordinary shares of €0.01 each	2,000	2,000
1,000,000 deferred shares of 10p each	148	148
	<u>2,148</u>	<u>2,148</u>
<i>Allotted</i>		
<i>Equity share capital</i>		
155,335,662 (2007: 140,645,619) ordinary shares of €0.01 each	1,553	1,406
1,000,000 deferred shares of 10p each	148	148
	<u>1,701</u>	<u>1,554</u>

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.

On 21 May 2007, 8,115,883 new ordinary shares were issued to Celanese Corporation at a price of €2.72 each for a cash consideration of €22,075,000.

On 18 September 2007, the company placed 5,000,000 new ordinary shares which were listed on Euronext Amsterdam at a price of €4.10 each, raising €18,483,000 after expenses.

Options over 1,574,160 Ordinary shares were exercised during the year at a price of €0.46 each. Details of outstanding options granted over Ordinary shares in the Company are set out in Note 12 to the Group financial statements.

9 Reserves

	Share premium account €'000	Profit and loss account €'000
Balance at 1 April 2007	35,689	14,299
Share based payments charged to subsidiaries	-	1,137
Premium on shares issued	43,152	-
Issue costs	(765)	-
Loss for the period	-	(677)
	<u>78,076</u>	<u>14,759</u>
Balance at 31 March 2008	<u><u>78,076</u></u>	<u><u>14,759</u></u>

The profit and loss account includes €8,010,000 of non-distributable reserves arising from the liquidation of Accsys Chemicals PLC in the year ended 31 March 2007. The profit and loss account also includes €1,137,000 of non-distributable reserves relating to share based payments.

10 Reconciliation of movement in shareholders' funds

	2008 €'000	2007 €'000
(Loss)/profit for the financial year	(677)	6,195
Unrealised gain on liquidation of former holding company	-	8,010
Share based payments charged to subsidiaries	1,137	172
Proceeds from issue of shares	42,534	10,266
	<u>42,994</u>	<u>24,643</u>
Net increase in shareholders funds	42,994	24,643
Opening shareholders funds	51,542	26,899
	<u>94,536</u>	<u>51,542</u>
Closing shareholders funds	<u><u>94,536</u></u>	<u><u>51,542</u></u>

Accsys Technologies PLC

Shareholder information

Directors	William Paterson-Brown Finlay Morrison Glyn Thomas Kevin Wood Gordon Campbell Tim Paterson-Brown Tom Priday The Rt. Hon. Lord Sanderson of Bowden, Kb, D.L.	Executive Chairman Chief Executive Officer Chief Financial Officer Chief Financial Officer, elect Non-Executive Director Non-Executive Director Non-Executive Director Non-Executive Director
Company Secretary	Christopher C Morse	
Company Number	5534340	
Registered Office	7 Queen Street Mayfair London W1J 5PB	
Bankers	Barclays Bank PLC 50 Pall Mall London SW1A 1QJ ABN Amro Gele Rijdersplein 6800 KW Arnhem The Netherlands	HSBC Bank 8 Canada Square London E14 5HQ Bank Sarasin & Cie AG Elisabethenstrasse 62 CH 4002 Basel Switzerland
Registrars	SLC Registrars Limited 42 - 46 High Street Esher, Surrey KT10 9QY	
Auditors	BDO Stoy Hayward LLP 55 Baker Street London W1U 7EU	
Lawyers	Lawrence Graham LLP 4 More London Riverside London SE1 2AU	

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www.accsysplc.com

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