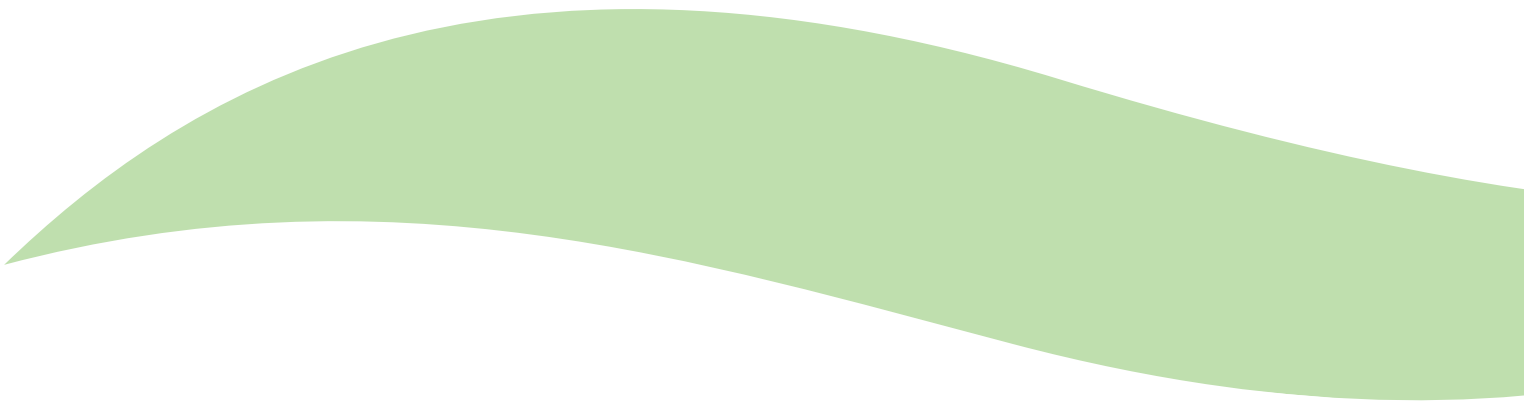




EDEN
RESEARCH PLC

ANNUAL REPORT & ACCOUNTS | 2005



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CHAIRMAN'S REVIEW

I am pleased to report that during 2005 the Company made significant progress in developing its terpene-based technology for agricultural use and, through licencing agreements, has made important steps towards early commercialisation of its intellectual property. In addition we have applied for a number of new crop protection patents and have had one of our important applications granted.

In the first quarter of 2006, the Company completed two out-licence and distribution agreements with Redestos and Xeda. In addition, our encapsulated terpene technology has received interest from several other major potential partners. This has led to six of these companies entering into cooperative testing agreements, resulting in over thirty trials of this nature currently taking place.

The broad potential of our encapsulation technology is being realised in an enlarged, but focused, programme of trials, conducted by a network of diverse researchers located from the upland plateaus of South America to the tropical lowlands of South East Asia. Many of these new developments will identify new markets to enter in addition to those we are currently focused on, namely:

- Botrytis on grapes & other fruit crops
- Powdery Mildew on grapes, fruit and vegetables
- Downy Mildew on grapes and other high value crops
- Nematodes affecting perennial fruit crops and intensively grown vegetables
- Late blight of potatoes
- Glasshouse pests

Of these, our most advanced product is for the control of Botrytis. This product will go through its final testing phase extensively in both Southern and Northern Europe this summer to confirm its efficacy and safety, to both the crop and consumer, prior to it being granted European regulatory approval. Work on US regulatory approval has commenced with extensive efficacy testing being undertaken in North America during 2006.

Research & Development

After initially assisting in the development of our

terpene encapsulation process in 2004/5, our pilot plant in Atlanta, Georgia has been used to produce larger quantities of a wider variety of high grade products, to support our testing requirements. Development work at our lab at Worcester, Massachusetts continues to investigate new ways of further enhancing the efficacy of the basic technology. This research has led to new combinations of terpenes for use against existing and newly identified problems. Screening activities throughout 2005 have identified the most effective terpene mixtures for use against a variety of plant and human pathogens and pests.

Cornell University's pathologists have continued to provide support to our development team as disease control moves from laboratory to crop. Their activities have highlighted issues such as the use of adjuvants, to improve product performance, and the customising of products to the individual disease and crop.

After receiving exciting nematode screening results from our principal researchers in Colorado, Florida and Capetown, we are to conduct further screening work in Greece and the UK this year, prior to moving these to the field in the next phase of development.

Fieldwork

Eden's heavy activity in Greece during 2005 saw the successful completion of six trials, under our agreement with Ecogen and John Boutari Wineries. This was supported by a further thirteen trials under the direction of Agrisearch International, a leading European field-based agricultural research company, in Spain, Portugal and Italy. Evidence from these trials was presented to the regulatory authorities in Greece, who agreed that the efficacy shown fully supported our plan to apply for regulatory approval. Second and final year trials in these regions are progressing well under the supervision of Agrisearch. This programme has been greatly expanded to provide the breadth of efficacy and safety data needed to satisfy regulatory authorities throughout the Mediterranean region. This process will lead on to the commercial release of our first product for Botrytis control, initially through Redestos, our commercial partner in the Eastern Mediterranean. During the European winter, trials conducted in Tasmania and South Australia, and under glasshouse

I would like to thank everyone in the Company for their commitment and our shareholders for their continued support.

conditions in the US, have added to our knowledge of how our products can best control Powdery Mildew. The use of our products to overcome this major disease, in glasshouse crops such as cucumbers, forms a second major component of our field trial programme in 2006.

Other field trial programmes, designed to develop robust and economically viable systems, suitable for the commercial control of Nematodes, Downy Mildew and Blights in vineyards, fruit orchards, and on a variety of other high value crops, are also to be progressed in the next year.

Regulatory activity

Discussions with the national regulatory authorities in Greece and Portugal have been progressing in line with our expectations. We have engaged JSC International, experienced UK and US regulatory consultants, to compile and progress the safety and toxicity dossiers required prior to our product being authorised for commercial sales. Once approved, these dossiers will also add significantly to the value and security of the company's intellectual property. The data collected from toxicity experiments, and from the public domain, will also reduce the cost of bringing new terpene-based products to market.

Partnership development programme

During 2005 the Company has energetically pursued its policy of seeking appropriate leading international commercial partners that are able to support our development programme and provide a strong manufacturing and distribution network. This activity has led to a high level of interest in our products, to summarise progress:

- Two commercial licensing agreements in place (Redestos and Xeda International);
- Six Cooperative Development and Testing Agreements ongoing with prominent European, US and SE Asian distributors and manufacturers; and
- Commercial discussions continuing at various stages with more than ten other major international distributors.

The geographical spread of the companies showing

interest in our technologies is extensive, and we expect that further commercial agreements will follow over the next year.

Financial Review

The loss of GBP2.6 million for the year is in line with forecasts and expectations as the Company commenced and successfully completed the first year of the European registration process for its Encapsulated Terpene based Botrytis product. The Company continues to adopt its aggressive amortisation policy charging GBP1.3 million during the year. During 2006 the Company will commence receipt of initial fees under the above licensing agreements and finalise field studies for registration.

Summary

The continued high level of commercial interest in our technology confirms and strengthens the value of the Company's technology. Moreover, our management team expects further products and patent applications to emerge in the coming year, to add to our portfolio as we explore new avenues for the exploitation of the core technology.

Important steps towards commercialisation have been achieved in a number of areas, and the Company has signed its first commercial partners. The efficacy of our initial product, for the treatment of Botrytis, has been demonstrated and has received significant interest from other potential partners. We can now see real products appearing that offer tangible technical benefits to the customer.

Eden Research plc has made great strides in the last twelve months, due to our dedicated management team led by Tim Griffiths our CEO, and we are confident that further exciting progress will be achieved in moving to commercial sales of our technology in 2006 and 2007. I would therefore like to thank everyone in the Company for their commitment and our shareholders for their continued support.

Ken Brooks
Chairman
26th July 2006



REPORT OF THE DIRECTORS

The directors present their annual report with the financial statements of the Group for the year ended 31 December 2005.

PRINCIPAL ACTIVITY

The principal activities of the Group in the year under review were the development and marketing of intellectual property, particularly in the area of terpenes and other health-related projects. The review of this year's business activities is as set out in the Chairman's Statement. The company has progressed well its field trials using its micro-encapsulated terpene intellectual property for the control of a number of plant and soil diseases, and the results to date have been very encouraging.

RESEARCH AND DEVELOPMENT

An indication of research and development activities is included within the Chairman's Statement.

RESULTS AND DIVDENDS

The loss for the year after taxation amounted to £2,577,607 (2004: £2,295,203). The directors are unable to recommend any dividend.

DIRECTORS

The directors in office in the year and their beneficial interests in the Company's issued ordinary share capital at the end of the year were as follows:

	Ordinary shares of £0.01 each	
	2005	2004 (or date of appointment if later)
K W Brooks	466,165	466,165
C Herron	117,000	50,000
T Griffiths	12,200	12,200
R J Allen (Appointed on 25 November 2005)	–	–

A B Baldry and D A Collins resigned as directors on 25 November 2005.

J E A Mocatta was appointed as a director on 13 January 2006 and resigned as director on 30 June 2006.

The directors have been granted options to subscribe for ordinary shares of £0.01 in the Company as set out below:

	At 1 January 2005 or date of appointment if later	Granted in the year	Lapsed in the year	At 31 December 2005	Exercise price £	Date from which exercisable	Expiry date
K W Brooks	125,000	–	(125,000)	–	0.95	08.12.03	07.12.05
	990,681	–	–	990,681	0.42	27.11.03	27.11.07
	–	212,806	–	212,806	0.20	11.10.05	11.10.10
	1,115,681	212,806	(125,000)	1,203,487			
C Herron	330,228	–	–	330,228	0.42	27.11.03	27.11.07
T Griffiths	990,681	–	–	990,681	0.42	27.11.03	27.11.07
	55,550	–	–	55,550	0.42	18.04.97	15.07.06
	–	212,806	–	212,806	0.20	11.10.05	11.10.10
	1,046,231	212,806	–	1,259,037			

The directors have no interest in the shares of any other Group company, including rights to subscribe for shares.

AB Baldry and DA Collins resigned as directors on 25 November 2005, at the date of resigning they had 530,228 and 106,042 options respectively which were not exercised and expired on 25 February 2006.

DIRECTORS RESPONSIBILITIES

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

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



REPORT OF THE DIRECTORS

CONTINUED

The directors are responsible for maintaining proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

PAYMENT OF CREDITORS

It is the Group's and the Company's policy to pay suppliers within an acceptable period of allowed creditor days in accordance with the agreed terms. The Group and the Company acted in accordance with this policy throughout the year. The Company had 117 days purchases outstanding at 31 December 2005 (2004: 34 days) based on the average daily amount invoiced by suppliers during the year ended 31 December 2005.

AUDITORS

Moore Stephens LLP will be proposed for reappointment in accordance with Section 385 of the Companies Act 1985.

Signed on behalf of the Board of Directors:

Oxford Corporate Services Ltd, Company Secretary
Approved by the Board.

Registered Office:
Unit 3
Manor Business Park
Witney Road
Finstock
Oxfordshire
OX7 3DG



OFFICERS AND PROFESSIONAL ADVISERS

THE BOARD OF DIRECTORS

Mr KW Brooks Chairman
Mr T Griffiths
Mr C Herron
Mr R J Allen (Appointed 25 November 2005)
Mr J Mocatta (Appointed 13 January 2006, resigned 30 June 2006)

COMPANY SECRETARIES

Mr R E Sims
Oxford Corporate Services Ltd

REGISTERED OFFICE

Unit 3
Manor Business Park
Witney Road
Finstock
Oxfordshire
OX7 3DG

AUDITORS

Moore Stephens LLP
St. Paul's House
Warwick Lane
London
EC4M 7BP

BANKERS

The Royal Bank of Scotland plc
Southern Corporate Office
P O Box 391
40 Islington High Street
London
N1 8JX

SOLICITORS

BrookStreet Des Roches
1 Des Roches Square
Witan Way
Witney
Oxfordshire
OX8 6BE

STOCKBROKERS

J M Finn and Co
Salisbury House
London Wall
London
EC2M 5TA



REPORT OF THE INDEPENDENT AUDITORS TO THE SHAREHOLDERS OF EDEN RESEARCH PLC

We have audited the group and parent company financial statements (the "financial statements") of Eden Research PLC for the year ended 31 December 2005 which comprise the Group Profit and Loss Account, the Group and Company Balance Sheets and the Group Cash Flow Statement. and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the other information accompanying the financial statements is not consistent with the financial statements, if 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 the other information in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements within it. The other information accompanying the financial statements comprises the Chairman's Statement and the Directors report. Our responsibilities do not extend to any other information.

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 company's circumstances, consistently applied and adequately disclosed.

We planned 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 financial statements:

- give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Group and Company's affairs as at 31 December 2005 and of the Group loss for the year then ended.
- have been properly prepared in accordance with the Companies Act 1985.

Emphasis of matter - Going Concern

In forming our opinion, which is not qualified, we have considered the adequacy of the disclosures made in note 1 of the financial statements concerning the ability of the Group to continue as a going concern. In view of the significance of this uncertainty we consider that it should be drawn to your attention.

MOORE STEPHENS LLP

Chartered Accountants

Registered Auditors

St. Paul's House

London

EC4M 7BP

26th July 2006



CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2005

	Note	2005 £	2004 £
Turnover	2	–	34,483
Cost of sales		–	(6,733)
Gross Profit		–	27,750
Administrative expenses – normal		(1,069,152)	(1,083,630)
Administrative expenses – amortisation and impairment of goodwill		(1,438,271)	(1,281,584)
		(2,507,423)	(2,337,464)
Other operating income	3	40,755	40,823
Operating Loss	4	(2,466,668)	(2,296,641)
Interest receivable and similar income		396	1,438
Interest payable	6	(111,335)	–
Loss on ordinary activities before taxation		(2,577,607)	(2,295,203)
Tax on loss on ordinary activities	7	–	–
Loss on ordinary activities after taxation		(2,577,607)	(2,295,203)
Retained loss for the financial year		(2,577,607)	(2,295,203)
Loss per share (pence) – normal and diluted	8	(5.76)	(5.23)

The results shown in the profit and loss account above represent continuing operations.

The Group has no recognised gains or losses other than the profit or loss for the above two financial years.

The Company has taken advantage of Section 230 of the Companies Act 1985, allowing it not to publish its own profit and loss account.

The notes on pages 18 to 30 form part of these financial statements



CONSOLIDATED BALANCE SHEET

31 DECEMBER 2005

	Note	2005 £	2004 £
Fixed Assets			
Intangible assets	9	8,527,349	9,603,009
Goodwill	10	–	328,183
Tangible assets	11	8,429	10,265
		8,535,778	9,941,457
Current Assets			
Debtors	13	67,944	106,701
Cash at bank and in hand		3,073	50,600
		71,017	157,301
Creditors: amounts falling due within one year	14	(2,208,869)	(1,123,225)
Net Current Liabilities		(2,137,852)	(965,924)
Net Assets		6,397,926	8,975,533
Capital and Reserves			
Called-up share capital	15	447,073	447,073
Share Premium Account	16	9,615,100	9,615,100
Merger Reserve	17	10,209,673	10,209,673
Profit and Loss Account	18	(13,873,920)	(11,296,313)
Shareholders' Funds	19	6,397,926	8,975,533

These financial statements were approved on 26 July 2006 by the directors and are signed on their behalf by:

K W BROOKS
DIRECTOR

The notes on pages 18 to 30 form part of these financial statements



COMPANY BALANCE SHEET

31 DECEMBER 2005

	Note	2005 £	2004 £
Fixed Assets			
Intangible assets	9	1,181,540	1,339,003
Tangible assets	11	8,429	10,265
Investments	12	7,345,909	9,181,967
		8,535,878	10,531,235
Current Assets			
Debtors	13	67,844	106,601
Cash at bank and in hand		3,073	50,600
		70,917	157,201
Creditors: amounts falling due within one year	14	(2,208,869)	(1,123,225)
Net Current Liabilities		(2,137,952)	(966,024)
Net Assets		6,397,926	9,565,211
Capital and Reserves			
Called-up share capital	15	447,073	447,073
Share premium account	16	9,615,100	9,615,100
Merger reserve	17	10,209,673	10,209,673
Profit and loss account	18	(13,873,920)	(10,706,635)
Shareholders' Funds	19	6,397,926	9,565,211

These financial statements were approved on 26 July 2006 by the directors and are signed on their behalf by:

K W BROOKS
DIRECTOR

The notes on pages 18 to 30 form part of these financial statements



CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2005

	2005 £	2005 £	2004 £	2004 £
Net cash outflow from operating activities		(705,638)		(1,107,640)
Returns on investments and servicing of finance				
Interest received	396		1,438	
		396		1,438
		(705,242)		(1,106,202)
Capital expenditure and financial investment				
Purchase of intangible fixed assets	(34,428)		(97,586)	
Purchase of tangible fixed assets	(2,586)		(9,653)	
		(37,014)		(107,239)
Cash outflow before financing		(742,256)		(1,213,441)
Financing				
Shareholders loan – drawdown		683,030		967,785
Issue of equity shares		–		6,750
Decrease in cash during the year		(59,226)		(238,906)

The notes on pages 18 to 30 form part of these financial statements



NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2005

RECONCILIATION OF OPERATING LOSS TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	2005 £	2004 £
Operating loss	(2,466,668)	(2,296,641)
Depreciation	4,423	1,705
Decrease in debtors	38,757	105,395
Increase/(decrease) in creditors	279,579	(201,519)
Amortisation of trademarks and intellectual property	1,110,088	1,104,346
Goodwill amortisation and impairment	328,183	179,074
Net cash outflow from operating activities	(705,638)	(1,107,640)

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	2005 £	2004 £
Decrease in cash in the year	(59,226)	(238,906)
Cash inflow from debt financing	(683,030)	(967,785)
Interest accrued on shareholders loans	(111,335)	–
Shareholders loans converted into equity shares	–	754,197
Change in net funds	(853,591)	(452,494)
Net debt at 1 January 2005	(917,185)	(464,691)
Net debt at 31 December 2005	(1,770,776)	(917,185)

ANALYSIS OF CHANGES IN NET DEBT

	At 1 January 2005 £	Cash Flows £	Non Cash changes £	At 31 December 2005 £
Cash at bank and in hand	50,600	(47,527)	–	3,073
Bank overdraft	–	(11,699)	–	(11,699)
Shareholders loans	(967,785)	(683,030)	(111,335)	(1,762,150)
Net debt at 31 December 2005	(917,185)	(742,256)	(111,335)	(1,770,776)

Non cash changes relate to interest accrued on shareholder's loans.

The notes on pages 18 to 30 form part of these financial statements

NOTES TO
THE FINANCIAL
STATEMENTS



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005

1. ACCOUNTING POLICIES

Basis of accounting

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

The Group financial statements combine the financial statements of Eden Research plc and its wholly owned subsidiaries Eden Research Europe Ltd and Eden Research Inc. No profit and loss account is presented for Eden Research plc, as provided by Section 230(3) of the Companies Act 1985.

Going concern

The financial statements have been prepared on a going concern basis which contemplates the realisation of assets and the settlement of liabilities in the ordinary course of business.

The Group has reported a loss for the year of £2,577,607 (2004 : £2,295,203). Net current liabilities amounted to £2,137,852 (2004: £965,924). The ability of the Group to continue as a going concern is ultimately dependent upon the amounts and timing of cash flows from the exploitation of the Group's Intellectual Property. In the short term, the directors will need to seek additional funding from shareholders. The directors are confident that such funding will be forthcoming. The directors are also confident that ongoing discussions with third parties will provide commercial opportunities in the short term to successfully exploit the Group's product range and achieve sufficient liquidity to enable the Group to finance its operations in the foreseeable future. Whilst there can be no certainty concerning the commercial development nor obtaining additional finance, the directors nevertheless consider that it is appropriate that financial statements be prepared on a going concern basis and no adjustments have been made for impairment and reclassification of assets, and reclassification of liabilities, which would be necessary if the Group were no longer a going concern.

Turnover

Turnover represents the value of products and services provided by the Group in accordance with the provisions of the underlying contract or licence, stated net of value-added tax (VAT).

Depreciation of tangible fixed assets

Depreciation is provided at rates calculated to write off the cost of each asset, less its estimated residual value, over its expected useful life as follows:

- Plant and equipment –
20% per annum on a reducing-balance basis
- Furniture, fixtures and fittings –
15-25% per annum on a straight-line basis
- Computer and office equipment –
33.33% per annum on a straight-line basis

Amortisation

Amortisation is calculated so as to write off the cost of each asset, less its estimated residual value, over its useful economic life as follows:

- Intellectual property, licences and trademarks –
10% per annum on a straight-line basis
- Goodwill on consolidation –
10% per annum on a straight-line basis

Operating lease agreement

Rentals applicable to operating leases, when substantially all of the benefits and risks of ownership remain with the lessor, are charged to the profit and loss account on a straight-line basis over the period of the lease.

Intangible fixed assets

Goodwill arising on consolidation is capitalised and amortised over its useful economic life. Costs in relation to trademarks are capitalised when they are incurred and are then written off over their useful economic lives and the life of the trademark, which is currently deemed to be 10 years. Intellectual property is amortised over its estimated life of 10 years.

The directors regularly review the intangible assets for impairment, and provision is made if necessary.

Research and development

Research and development costs in relation to all existing products are written off in the year in which they are incurred.

Investments in group companies

Shares in Group companies are stated at cost less provision for any impairment in value.

Deferred taxation

Deferred taxation is provided in full with respect to taxation deferred by timing differences between the treatment of certain items for taxation and accounting purposes. The deferred taxation balance has not been discounted.

Deferred tax assets are recognised to the extent that it is more likely than not that there will be suitable taxable profits from which the reversal of the underlying timing difference can be deducted.

Foreign currencies

Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Exchange differences are taken into account in arriving at the operating loss.

2. TURNOVER AND GROUP LOSS

The turnover and loss of the Group during the year are attributable to the one principal activity of the Group.

An analysis of turnover is below:

	2005 £	2004 £
United Kingdom	–	34,483

All turnover originates from and all assets are situated in the United Kingdom, with the exception of some of the intellectual property which is located in the USA.

3. OTHER OPERATING INCOME

	2005 £	2004 £
Rental Income	40,755	40,823

4. OPERATING LOSS

The operating loss is stated after charging/(crediting):

	2005 £	2004 £
Net loss/(profit) on foreign exchange	1,045	(166)
Amortisation of trademarks and intellectual property	1,110,088	1,104,346
Amortisation and impairment of goodwill	328,183	179,074
Auditors' remuneration – as auditors	18,000	18,000
– other services	–	8,284
Depreciation – owned assets	4,423	1,705
Operating lease rentals – land and buildings	31,413	33,778
Research and development costs	198,862	165,571
Write off loan to Arista Biologics Inc	–	265,240



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005 - CONTINU

5. EMPLOYEES AND DIRECTORS

During the year, staff costs, including executive directors, amounted to:

	2005 £	2004 £
Wages and salaries	128,407	67,996
Social security costs	14,032	7,322
	142,439	75,318

The average number of employees during the year was as follows:

	No.	No.
Management	6	4
Administration	1	1
	7	5

Details of charges incurred with related parties with respect to management services are set out in note 20.

	2005 £	2004 £
Directors' remuneration	90,000	51,917

None of the directors are accruing benefits under Company pension schemes

6. INTEREST PAYABLE

	2005 £	2004 £
On shareholders loans (note 21)	111,335	–

7. TAX ON LOSS ON ORDINARY ACTIVITIES

	2005 £	2004 £
Corporation tax	–	–

No tax charge arises on the results for the year. Tax losses carried forward amount to approximately £7,083,000 (2004: £5,951,000).

FACTORS AFFECTING TAX CHARGE FOR THE YEAR

The UK standard rate of corporation tax is 30% (2004: 30%), whereas the current tax assessed for the financial year as a percentage of the loss before taxation is nil (2004: nil). The differences are explained below:

	2005 %	2004 %
Standard rate of corporation tax in the United Kingdom	(30.0)	(30.0)
Effects of:		
Losses carried forward	14.0	15.4
Other expenses not deductible for tax purposes	16.0	14.6
Current tax rate for the year	–	–

UNPROVIDED DEFERRED TAX ASSET

	2005 £	2004 £
Losses at 30%	2,125,000	1,785,000

The deferred tax asset has not been recognised due to the uncertainty of suitable future profits against which it may be realised.

8. LOSS PER SHARE

	2005 £	2004 £
Loss per ordinary share (pence)	(5.76)	(5.23)

Loss per share has been calculated on the net basis on the loss on ordinary activities after taxation of £2,577,607 (2004: £2,295,203) using the weighted average number of ordinary shares in issue of 44,707,260 (2004: 43,886,937). Due to the loss for the year, there is no dilution of the loss per share arising from options in existence.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005

9. INTANGIBLE FIXED ASSETS

GROUP	Intellectual property £	licenses and trademarks £	Total £
Cost			
At 1 January 2005	10,828,467	255,690	11,084,157
Additions	–	34,428	34,428
At 31 December 2005	10,828,467	290,118	11,118,585
Amortisation			
At 1 January 2005	1,411,911	69,237	1,481,148
Charge for the year	1,082,848	27,240	1,110,088
At 31 December 2005	2,494,759	96,477	2,591,236
Net book value			
At 31 December 2005	8,333,708	193,641	8,527,349
Net book value			
At 31 December 2004	9,416,556	186,453	9,603,009
COMPANY	Intellectual property £	licenses and trademarks £	Total £
Cost			
At 1 January 2005	1,646,500	255,690	1,902,190
Additions	–	34,428	34,428
At 31 December 2005	1,646,500	290,118	1,936,618
Amortisation			
At 1 January 2005	493,950	69,237	563,187
Charge for the year	164,650	27,241	191,891
At 31 December 2005	658,600	96,478	755,078
Net book value			
At 31 December 2005	987,900	193,640	1,181,540
Net book value			
At 31 December 2004	1,152,550	186,453	1,339,003

10 . GOODWILL

GROUP	Positive goodwill £
Cost	
At 1 January 2005	1,790,742
At 31 December 2005	1,790,742
Amortisation	
At 1 January 2005	1,462,559
Charge for the year	328,183
At 31 December 2005	1,790,742
Net book value	
At 31 December 2005	–
Net book value	
At 31 December 2004	328,183

11. TANGIBLE FIXED ASSETS

GROUP AND COMPANY	Plant and machinery £	Furniture, fixtures and fittings £	Computer and office equipment £	Total £
Cost				
At 1 January 2005	2,790	14,923	26,048	43,761
Additions	–	200	2,387	2,587
At 31 December 2005	2,790	15,123	28,435	46,348
Amortisation				
At 1 January 2005	86	12,728	20,682	33,496
Charge for the year	564	572	3,287	4,423
At 31 December 2005	650	13,300	23,969	37,919
Net book value				
At 31 December 2005	2,140	1,823	4,466	8,429
Net book value				
At 31 December 2004	2,704	2,195	5,366	10,265



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005

12. FIXED ASSET INVESTMENTS

COMPANY	2005 £	2004 £
Balance at 1 January	9,181,967	9,181,967
Writedown	(1,836,058)	—
Balance at 31 December	7,345,909	9,181,967

The investment in subsidiary companies at book value comprises the following:

	2005 £	2004 £
Eden Research Inc	7,345,909	9,181,967

The activities of the Company's subsidiary undertakings are as follows:

EDEN RESEARCH EUROPE LTD

- The company remained dormant throughout the year.

EDEN RESEARCH INC

- Holds a portfolio of intellectual property of antimicrobial products. This company, incorporated in Delaware, USA, was acquired on 1 December 2003 for £9,181,967 by way of issue of shares. Battlebridge Group Ltd, a shareholder, held a small minority interest in Eden Research Inc prior to the acquisition.

BIOCLINICAL SERVICES LIMITED

- The Company was acquired on 11 July 2005 for £1. The company is dormant and the book value and fair value of assets and liabilities acquired was nil.

13. DEBTORS

GROUP	2005 £	2004 £
Trade debtors	–	34,483
Other debtors	40,977	49,769
VAT recoverable	26,967	22,449
	67,944	106,701
COMPANY	2005 £	2004 £
Trade debtors	–	34,483
Other debtors	40,877	49,669
VAT recoverable	26,967	22,449
	67,844	106,601

14 . CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

GROUP	2005 £	2004 £
Bank overdraft	11,699	–
Trade creditors	379,939	95,090
Other creditors (note 21)	1,766,921	971,010
Accruals and deferred income	50,310	57,125
	2,208,869	1,123,225
COMPANY	2005 £	2004 £
Bank overdraft	11,699	–
Trade creditors	379,939	95,090
Other creditors (note 21)	1,766,921	971,010
Accruals and deferred income	50,310	57,125
	2,208,869	1,123,225

The bank overdraft is secured by an Intercompany Composite Guarantee dated 30 January 2001 in favour of The Royal Bank of Scotland.



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005 - CONTINUED

15. CALLED-UP SHARE CAPITAL

	2005 £	2004 £
Authorised		
100,000,000 ordinary shares of £0.01 each (2004: 100,000,000)	1,000,000	1,000,000
Allotted and called up		
44,707,260 ordinary shares of £0.01 each (2004: 44,707,260)	447,073	447,073

SHARE OPTIONS

In addition to the directors' share options disclosed in the Report of the Directors, options with respect to 1,281,170 shares have been granted as follows:

At 1 January 2005	Granted in the year	Lapsed in the year	At 31 December 2005	Exercise Price £	Date from which exercisable	Expiry date
70,422	—	(70,422)	—	£0.01	23.02.02	31.12.05
71,170	—	—	71,170	£0.20	24.06.02	31.12.07
100,000	—	—	100,000	£0.20	24.06.02	24.06.07
500,000	—	—	500,000	£0.27	24.06.02	31.12.07
60,000	—	—	60,000	£0.27	01.11.04	01.11.09
500,000	—	(500,000)	—	£0.35	28.02.03	28.02.07
350,000	—	—	350,000	£0.35	09.08.04	09.08.09
—	100,000	—	100,000	£0.35	19.01.05	29.01.09
50,000	—	(50,000)	—	£0.95	08.12.03	07.12.05
100,000	—	—	100,000	£1.60	04.05.00	19.04.07
1,801,592	100,000	(620,422)	1,281,170			

150,000 options relating to a former director have been included in the number of options brought forward at 1 January 2005, these options were previously disclosed in the directors report.

In addition to the options disclosed above 150,000 warrants were issued during the year. These are exercisable between 20.09.2005 and 20.09.2010 at a price of £0.13.

16. SHARE PREMIUM ACCOUNT

GROUP AND COMPANY

	2005 £	2004 £
At 1 January 2005	9,615,100	8,867,885
Premium on shares issued in the year	—	747,215
At 31 December 2005	9,615,100	9,615,100

17. MERGER RESERVE

GROUP AND COMPANY	2005 £	2004 £
At 1 January 2005	10,209,673	10,756,148
Transfer to profit and loss account on disposal of subsidiary	–	(546,475)
At 31 December 2005	10,209,673	10,209,673

18. PROFIT AND LOSS ACCOUNT

GROUP	2005 £	2004 £
At 1 January 2005	(11,296,313)	(9,547,585)
Retained loss for the year	(2,577,607)	(2,295,203)
Transfer from Merger Reserve on disposal of a subsidiary	–	546,475
At 31 December 2005	(13,873,920)	(11,296,313)

COMPANY	2005 £	2004 £
At 1 January 2005	(10,706,635)	(10,054,942)
Retained loss for the year	(3,167,285)	(1,198,168)
Transfer from Merger Reserve on disposal of a subsidiary	–	546,475
At 31 December 2005	(13,873,920)	(10,706,635)

19. RECONCILIATION OF MOVEMENTS ON SHAREHOLDERS' FUNDS

GROUP	2005 £	2004 £
Loss for the financial year after taxation	(2,577,607)	(2,295,203)
New equity share capital issued (nominal value)	–	13,732
Share premium arising on new share capital subscribed	–	747,215
Opening shareholders' funds at 1 January 2005	8,975,533	10,509,789
Closing shareholders' funds at 31 December 2005	6,397,926	8,975,533

COMPANY	2005 £	2004 £
Loss for the financial year after taxation	(3,167,285)	(1,198,168)
New equity share capital issued (nominal value)	–	13,732
Share premium arising on new share capital subscribed	–	747,215
Opening shareholders' funds at 1 January 2005	9,565,211	10,002,432
Closing shareholders' funds at 31 December 2005	6,397,926	9,565,211



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005

20. COMMITMENTS

LEASE COMMITMENTS

At 31 December 2005, the Group had annual commitments under non-cancellable operating leases as follows:

	2005 Land and buildings £	2004 Land and buildings £
Expiring – 1-2 years	30,000	–
Expiring – 2-5 years	–	30,000

21. RELATED PARTY DISCLOSURES

The Company has taken advantage of the exemptions in Financial Reporting Standard 8 with regard to disclosure of transactions with other Group undertakings.

During the year, the Group traded with BrookStreet Des Roches, a firm of solicitors for which K W Brooks acts as a consultant, as follows:

	2005 £	2004 £
Provision of legal services	22,044	21,025
Trade creditors due at the year end	5,885	4,494

In 2004 the Group traded with Oxford Commercial Services Ltd and Oxford Corporate Services Ltd, companies in which K W Brooks is a director. The transactions in aggregate were as follows:

	2005 £	2004 £
Provision of management and statutory secretarial services	–	11,483
Trade creditors due at the year end	–	695

During 2004, the Group traded with Management (TG) Ltd, a company controlled by T Griffiths. The transactions in aggregate were as follows:

	2005 £	2004 £
Provision of consultancy services and reimbursement of expenses	–	57,820
Trade creditors due at the year end	–	–

During the year the Group traded with Insight Medical Writing Limited, a company controlled by T Griffiths and his spouse K Walker. The transactions in aggregate were as follows:

	2005 £	2004 £
Medical writing fees	62,200	35,000
Trade creditor due at the year end	17,807	5,875

During the year the Group traded with 3DMWorldwide PLC, a company in which K W Brooks is a director. The transactions in aggregate were as follows:

	2005 £	2004 £
Rent receivable	40,755	40,823
Other debtor at the year end	20,378	11,972

The directors regard all the transactions disclosed above as being on an arms' length basis and in the normal course of business.

During the year, the Group traded with Battlebridge Group Limited, a shareholder. The transactions in aggregate were as follows:

	2005 £	2004 £
Management and Administrative Services	174,360	121,200
Trade creditor due at the year end	111,672	–

Other creditors include the following loans advanced by the shareholders of the Company

	2005 £	2004 £
Battlebridge Group Limited	980,613	764,585
Battlebridge Nominees Limited	322,132	103,200
Oxford Commercial Services Limited	29,213	–
Oxford Equities Limited	108,125	100,000
Oxford Capital Plc.	268,317	–
Oxford Business Services Limited	53,750	–
	1,762,150	967,785

The loans are unsecured, carry an interest rate of 7.5% (2004-0.0%) per annum and there are no fixed terms for repayment.



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005

22. FINANCIAL INSTRUMENTS

Where permitted by FRS 13, short-term debtors and creditors are excluded from these disclosures.

DEBT INSTRUMENTS

At the present time, the Company is financed with short-term borrowings and equity. All borrowings at the year end were at floating rates, repayable on demand and denominated in pounds sterling.

CURRENCY RISK

The Group publishes its financial statements in pounds sterling and conducts some of its business in US dollars. As a result, it is subject to foreign currency exchange risk due to exchange movements, which will affect the Group's transaction costs and translation of the results. No financial instruments are utilised to manage risk and currency gains, and losses are charged to the profit and loss account as incurred. At the year end, the Group had the following net foreign currency debtors or creditors:

	2005	2004
	£	£
Euros Debtor	–	34,483
US Dollars Creditor	30,323	37,311

INTEREST RISK

The Group has an exposure to interest rate risk. Currently, the directors utilise variable rate borrowings.

LIQUIDITY

An analysis of financial liabilities is set out in note 13.

FAIR VALUES

The directors consider that the carrying value of financial assets and liabilities is not materially different to their fair values.