

EDEN

THE NATURAL SOLUTION

ANNUAL REPORT AND ACCOUNTS 2003



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CHAIRMAN'S STATEMENT

REVIEW

2003 was a very good year for your Company, with substantial progress being made both on the corporate and product development sides. Following the acquisition of Michigan-based Eden Research Inc, which has an intellectual property portfolio of antimicrobial products complementary to our own, we changed our name from Ximed Group plc to Eden Research plc.

During the year, the Group recorded a loss after tax of £1,031,306 (2002: £1.4m). The reported figures continue to be in line with budgeted expenditure for the development of the Group's products. At current and budgeted cash burn rates, and having raised £330,000 in December 2003, the directors are confident that the Group's cash resources are sufficient to meet requirements over the current year.

We continue to focus our research on terpene chemistry. Terpenes are compounds produced by plants as a natural defence mechanism. Although our terpene-based products can be used in a number of applications, one major focus has been treatment of the debilitating vine infection, Pierce's disease, which causes millions of dollars of damage every year to the US wine industry alone. Following initial tests that were extremely positive, we have been conducting further extensive trials, which look very encouraging. We hope to report on these in the near future.

In March 2003, we signed a licence agreement with California-based Arista Biologics Inc. ('Arista') which is now marketing our terpene solution for Pierce's disease for an initial royalty of 18.5% of its gross revenue in this field. In addition, Arista is carrying out further research into applying our formula to other major crops such as peaches, pecans, almonds, avocados, tomatoes, onions and strawberries.

Through the use of terpene chemistry, we are also applying our scientific expertise to target a number of other plant diseases, which we feel will offer significant commercial potential for the Group. These include eutypa, Petri disease and measles, which infect mature vines worldwide, and bacterial canker, a debilitating disease particularly affecting almonds and stone fruit trees. We are also developing a replacement for methyl bromide (a soil fumigant widely used as a weed and nematode killer), which is due to be phased out, as well as a natural treatment for head lice, which infest six million people in the US alone.

Eden Research Inc has been focusing on the development of antimicrobial technologies which suppress the growth of bacteria and fungi. The acquisition has boosted our product portfolio, some components of which we believe are close to commercialisation. "Pure and Clean" food spray eliminates potentially life-threatening pathogens and extends the shelf life of perishable foods. In addition, Eden's silver technology uniquely allows antimicrobial properties to be included in a variety of surfaces, fibres and finishes, and other products centred on odour control, cleaning and beauty care are close to first orders.

We are also developing a microbicide technology with exciting potential in healthcare applications such as wound care and medical devices, which we hope to make available for commercialisation in 2005.

By utilising both companies' scientific knowledge, jointly developing new products and maximising new opportunities, we believe that the enlarged Group's overall potential has substantially increased.

THE BOARD

We realised the need to invest in a high-quality managerial team as the Group increases its level of activities. We therefore appointed Tim Griffiths as the new CEO in November 2003. Mr Griffiths has a strong pharmaceutical and deal-making background in both Europe and the US. Your previous Chairman, Tony Baldry, decided to step down from the position of Chairman following the enlargement of the Group and his increasing commitments elsewhere. However, he has agreed that he will continue providing us with valuable advice by becoming a Non-Executive Director.

DIVIDEND

As I mentioned, we are still developing our products and looking to bring them to commercialisation. As such, we are not presently in a position to pay a dividend. However, as we secure contracts and licensing agreements that generate revenues, we will review this situation and act according to what we believe is most beneficial to our shareholders.

PROSPECTS

2004 has begun well, with the business and its activities evolving at a rapid pace. Initial results from the field trials conducted in Pierce's disease look encouraging, and we hope to update you on these in more detail very soon.

We are confident that we can generate value by utilising our highly skilled research teams and marketing our unique products internationally with other licence partners. With an increasingly broader market being targeted and a wider product range closer to commercialisation, we are confident that this will be reflected in our financial performance. We remain committed to generating positive returns for our shareholders and are optimistic about the future of the Group.

CRAIG HERRON
CHAIRMAN

17 MAY 2004

REPORT OF THE DIRECTORS

The directors present their annual report with the financial statements of the Group for the year ended 31 December 2003.

CHANGE OF NAME

The company passed a special resolution on 26 November 2003 changing its name from XiMed Group plc to Eden Research plc.

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 products.

The review of this year's business activities is as set out in the Chairman's Statement.

The company continues to conduct field trials using its terpene intellectual property for the control of Pierce's disease, 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 DIVIDENDS

The loss for the year after taxation amounted to £1,031,306 (2002: £1,408,217). 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:

	2003	Ordinary shares of £0.01 each 2002 or date of appointment if later
K W Brooks	426,065	425,165
A B Baldry	–	–
W F Widger	–	–
C Herron	89,000	89,000
T Griffiths (appointed on 26 November 2003)	12,200	12,200

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

	At 1 January 2003 or date of appointment if later	Granted in the year	Lapsed in year	At 31 December 2003	Exercise price £	Date from which exercisable	Expiry date
K W Brooks	50,000	–	–	50,000	0.135	22.12.00	21.12.07
	10,000	–	–	10,000	1.35	19.07.02	18.07.04
	18,900	–	–	18,900	1.35	14.12.02	13.12.04
	43,100	–	–	43,100	1.60	14.12.02	13.12.04
	125,000	–	–	125,000	0.95	08.12.03	07.12.05
	–	990,681	–	990,681	0.42	27.11.03	27.11.07
	247,000	990,681	–	1,237,681			
W F Widger	100,000	–	–	100,000	1.60	04.05.00	19.04.07
	50,000	–	–	50,000	0.95	08.12.03	07.12.05
	150,000	–	–	150,000			
A B Baldry	10,000	–	–	10,000	1.35	19.07.02	18.07.04
	5,000	–	–	5,000	1.70	05.03.99	14.07.06
	33,800	–	–	33,800	1.60	14.12.02	13.12.04
	4,200	–	–	4,200	1.35	14.12.02	13.12.04
	50,000	–	–	50,000	0.95	08.12.03	07.12.05
	100,000	–	–	100,000	1.60	04.05.00	19.04.07
	–	330,228	–	330,228	0.42	27.11.03	27.11.07
	203,000	330,228	–	533,228			
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	0.342	18.04.97	15.07.06
	55,550	990,681	–	1,046,231			

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

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 Company acted in accordance with this policy throughout the year. The Group had 173 days purchases outstanding at 31 December 2003 (2002: 8 days) based on the average daily amount invoiced by suppliers during the year ended 31 December 2003.

AUDITORS

The auditors, Solomon Hare 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 on 17 May 2004.

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

OFFICERS AND PROFESSIONAL ADVISERS

THE BOARD OF DIRECTORS

Mr C Herron Chairman
Mr K W Brooks
Mr W F Widger
Mr A B Baldry
Mr T Griffiths (Appointed 26 November 2003)

COMPANY SECRETARIES

Mr R E Sims
Oxford Corporate Services Ltd

REGISTERED OFFICE

Manor Business Park
Witney Road
Finstock
Oxfordshire
OX7 3DG

AUDITORS

Solomon Hare LLP
Oakfield House
Oakfield Grove
Bristol
BS8 2BN

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 financial statements for the year ended 31 December 2003 set out on pages 10 to 28. These financial statements have been prepared under the historical cost convention and the accounting policies set out on pages 15 and 16.

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

As described on pages 5 and 6, the Company's directors are responsible for the preparation of financial statements in accordance with applicable law and United Kingdom Accounting Standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

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 Report of the Directors is not consistent with the financial statements, if the Group 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 transactions with the Group is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This information comprises only the Chairman's Statement and the Report of the Directors. 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.

BASIS OF OPINION

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and the 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.

FUNDAMENTAL UNCERTAINTY

In forming our opinion, we have considered the adequacy of the disclosures made in the financial statements concerning the carrying value of intellectual property (£10,499,167) and goodwill (£507,257) in the consolidated balance sheet and intellectual property (£1,317,200) and investments (£9,181,967) in the Company accounts. The appropriateness of the carrying values is dependent upon the Group securing contracts for the commercial exploitation of its technology, which is uncertain. Further details of this fundamental uncertainty are described in note 8. Our opinion is not qualified in this respect.

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and the Group as of 31 December 2003 and of the Group's results for the year then ended, and have been properly prepared in accordance with the Companies Act 1985.

SOLOMON HARE LLP

Chartered Accountants
Registered Auditors
Bristol

17 MAY 2004

CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2003

	Note	2003 £	2002 £
Turnover	2	643	3,049
Cost of sales		(4,375)	(56,751)
Gross Loss		(3,732)	(53,702)
Administration expenses – normal		(568,031)	(1,236,261)
Administration expenses – amortisation and impairment of goodwill		(519,839)	(161,870)
		(1,091,602)	(1,451,833)
Other operating income	3	–	6,618
Operating Loss	4	(1,091,602)	(1,445,215)
Profit on disposal of subsidiary		60,000	–
Interest receivable and similar income		296	348
Loss on ordinary activities before taxation		(1,031,306)	(1,444,867)
Tax on loss on ordinary activities	6	–	36,650
Loss on ordinary activities after taxation		(1,031,306)	(1,408,217)
Retained loss for the financial year		(1,031,306)	(1,408,217)
Earnings per share (pence) – loss (normal and diluted)	7	(4.3)	(8.0)

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 15 to 28 form part of these financial statements

CONSOLIDATED BALANCE SHEET

31 DECEMBER 2003

	Note	2003 £	2002 £
Fixed Assets			
Intangible assets	8	10,609,769	1,575,045
Goodwill	9	507,257	1,027,096
Tangible assets	10	2,317	3,670
		11,119,343	2,605,811
Current Assets			
Debtors	12	212,096	14,321
Cash at bank and in hand		289,514	8,746
		501,610	23,067
Creditors: amounts falling due within one year	13	(1,111,164)	(599,749)
Net Current Liabilities		(609,554)	(576,682)
Net Assets		10,509,789	2,029,129
Capital and Reserves			
Called-up share capital	14	433,341	221,048
Share premium account	15	8,867,885	8,546,135
Merger reserve	16	10,756,148	1,778,225
Profit and loss account	17	(9,547,585)	(8,516,279)
Equity Shareholders' Funds	18	10,509,789	2,029,129

These financial statements were approved by the directors on 17 May 2004 and are signed on their behalf by:

K W BROOKS
DIRECTOR

The notes on pages 15 to 28 form part of these financial statements

COMPANY BALANCE SHEET

31 DECEMBER 2003

	Note	2003 £	2002 £
Fixed Assets			
Intangible assets	8	1,427,802	1,575,045
Tangible assets	10	2,317	3,670
Investments	11	9,181,967	20,000
		10,612,086	1,598,715
Current Assets			
Debtors	12	211,996	54,255
Cash at bank and in hand		289,514	8,746
		501,510	63,001
Creditors: amounts falling due within one year	13	(1,111,164)	(597,070)
Net Current Liabilities		(609,654)	(534,069)
Net Assets		10,002,432	1,064,646
Capital and Reserves			
Called-up share capital	14	433,341	221,048
Share premium account	15	8,867,885	8,546,135
Merger reserve	16	10,756,148	1,778,225
Profit and loss account	17	(10,054,942)	(9,480,762)
Equity Shareholders' Funds	18	10,002,432	1,064,646

These financial statements were approved by the directors on 17 May 2004 and are signed on their behalf by:

K W BROOKS
DIRECTOR

The notes on pages 15 to 28 form part of these financial statements

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2003

	2003 £	2003 £	2002 £	2002 £
Net cash outflow from operating activities		(64,593)		(1,435,556)
Returns on investments and servicing of finance				
Interest received	296		348	
		296		348
Taxation				
Corporation tax received		–		36,650
		(64,297)		(1,398,558)
Capital expenditure and financial investment				
Purchase of intangible fixed assets	(33,217)		(35,496)	
Purchase of tangible fixed assets	–		(2,883)	
Sale of tangible fixed assets	–		18,749	
		(33,217)		(19,630)
Acquisitions and disposals				
Disposal of subsidiary	60,000		–	
		60,000		–
Cash outflow before financing		(37,514)		(1,418,188)
Financing				
Issue of equity shares		329,999		1,406,979
Increase/(Decrease) in cash during the year		292,485		(11,209)

The notes on pages 15 to 28 form part of these financial statements

NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2003

**RECONCILIATION OF OPERATING LOSS TO NET CASH OUTFLOW
FROM OPERATING ACTIVITIES**

	2003 £	2002 £
Operating loss	(1,091,602)	(1,445,215)
Depreciation	1,353	5,740
(Increase)/Decrease in debtors	(197,775)	49,608
(Decrease)/Increase in creditors	523,132	(378,080)
Amortisation of trademarks and intellectual property	180,460	177,139
Goodwill amortisation and impairment	519,839	161,870
Profit on disposal of fixed assets	–	(6,618)
Net cash outflow from operating activities	(64,593)	(1,435,556)

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS/(DEBT)

	2003 £	2002 £
Increase/(Decrease) in cash in the year	292,485	(11,209)
Change in net funds	292,485	(11,209)
Net (debt)/funds at 1 January 2003	(2,979)	8,230
Net funds/(debt) at 31 December 2003	289,506	(2,979)

ANALYSIS OF CHANGES IN NET FUNDS/(DEBT)

	At 1 January 2003 £	Cash flows £	At 31 December 2003 £
Cash at bank and in hand	8,746	280,768	289,514
Bank overdraft	(11,725)	11,717	(8)
Net (debt)/funds	(2,979)	292,485	289,506

NON-CASH TRANSACTIONS

The acquisition of Eden Research Inc, as set out in note 21, for £9,181,967 was for nil cash consideration.

The notes on pages 15 to 28 form part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2003

1. ACCOUNTING POLICIES**BASIS OF ACCOUNTING**

These financial statements have been prepared in accordance with statements of standard accounting practice issued by UK accounting bodies and under the historical cost convention.

The Group financial statements combine the financial statements of Eden Research plc and its wholly owned subsidiaries Phytogenics Ltd, Eden Research Europe Ltd, BioClinical Services Ltd and Eden Research Inc, and the financial statements of its 99.7% owned subsidiary Profemme Ltd made up to 31 December 2003. 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 directors have prepared the financial statements on the going-concern basis. This basis has been used as, in the directors' opinion, the Group has adequate financial resources, which include the continued support of third parties.

As noted in the Report of the Directors, trials of the Company's terpene-based products, included in the intangible assets in the Balance Sheet, are being conducted. As a result of the acquisition of Eden Research Inc, the Group has acquired additional intellectual property with applications in the antimicrobial field. The directors believe that these will result in revenues being generated in the future. At this time, it is not possible to identify the precise quantum and timing of this income.

TURNOVER

Turnover represents amounts invoiced by the Group with respect to goods sold and services rendered during the year, stated net of value-added tax (VAT). Territory rights income is recognised on an invoiced basis.

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 AGREEMENTS

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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2003

CONTINUED

1. ACCOUNTING POLICIES (CONTINUED)**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.

GOVERNMENT GRANTS

Government grants with respect to capital expenditure are credited to a deferred income account and are released to the profit and loss account over the expected useful lives of the relevant assets by equal instalments.

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:

	2003	2002
	£	£
United Kingdom	643	3,049

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

	2003	2002
	£	£
Profit on disposal of fixed assets	–	6,618

4. OPERATING LOSS

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

	2003	2002
	£	£
Net loss on foreign exchange	1,624	3,128
Profit on disposal of fixed assets	–	(6,618)
Amortisation of trademarks and intellectual property	180,460	177,139
Amortisation of goodwill	179,074	161,870
Impairment of goodwill	340,765	–
Auditors' remuneration – as auditors	10,000	10,000
– other services	32,400	42,775
Depreciation – owned assets	1,353	5,740
Operating lease rentals – land and buildings	–	6,740
Research and development costs	4,375	11,459

Impairment of goodwill relates to a piece of intellectual property that the directors do not intend to develop.

5. EMPLOYEES AND DIRECTORS

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

	2003	2002
	£	£
Wages and salaries	7,200	10,000
Social security costs	–	468
Other pension costs	–	7,049
	7,200	17,517

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

	No.	No.
Management	4	4
	4	4

The only staff of the Company are the directors. Details of charges incurred with related parties with respect to management services are set out in note 20.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2003

CONTINUED

5. EMPLOYEES AND DIRECTORS (CONTINUED)

Staff costs include the following emoluments with respect to directors:

	2003 £	2002 £
Directors' remuneration	7,200	10,000

The number of directors who are accruing benefits under Company pension schemes were as follows:

	2003	2002
Money purchase schemes	–	–

6. TAX ON LOSS ON ORDINARY ACTIVITIES

	2003 £	2002 £
Under provision re: tax credits for research and development	–	36,650

No tax charge arises on the results for the year. Tax losses carried forward amount to approximately £4,773,000 (2002: £4,304,000).

FACTORS AFFECTING TAX CHARGE FOR THE YEAR

The UK standard rate of corporation tax is 30% (2002: 30%), whereas the current tax assessed for the financial year as a percentage of the loss before taxation is nil (2002: nil). The differences are explained below:

	2003 %	2002 %
Standard rate of corporation tax in the United Kingdom	(30.0)	(30.0)
Effects of:		
Losses carried forward	27.7	24.6
Other expenses not deductible for tax purposes	2.3	5.4
Current tax rate for the year	–	–

UNPROVIDED DEFERRED TAX ASSET

	2003 £	2002 £
Losses at 30%	1,431,900	1,291,200

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

7. EARNINGS PER SHARE

	2003	2002
Earnings per ordinary share (pence)	(4.3)	(8.0)

Earnings per share have been calculated on the net basis on the loss on ordinary activities after taxation of £1,031,306 (2002: £1,408,217) using the weighted average number of ordinary shares in issue of 23,891,957 (2002: 17,527,165). Due to the loss for the year, there is no dilution of earnings arising from options in existence.

8. INTANGIBLE FIXED ASSETS

GROUP	Intellectual property £	Licences and trademarks £	Total £
Cost			
At 1 January 2003	1,646,500	124,887	1,771,387
Additions	–	33,217	33,217
Acquisition	9,181,967	–	9,181,967
At 31 December 2003	10,828,467	158,104	10,986,571
Amortisation			
At 1 January 2003	164,650	31,692	196,342
Charge for the year	164,650	15,810	180,460
At 31 December 2003	329,300	47,502	376,802
Net book value			
At 31 December 2003	10,499,167	110,602	10,609,769
Net book value			
At 31 December 2002	1,481,850	93,195	1,575,045

In the light of current ongoing licensing opportunities, as outlined in the Chairman's Statement, the directors believe the carrying value of the intellectual property is fair and reasonable given future potential income streams.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2003

CONTINUED

8. INTANGIBLE FIXED ASSETS (CONTINUED)

COMPANY	Intellectual property £	Licences and trademarks £	Total £
Cost			
At 1 January 2003	1,646,500	124,887	1,771,387
Additions	–	33,217	33,217
At 31 December 2003	1,646,500	158,104	1,804,604
Amortisation			
At 1 January 2003	164,650	31,692	196,342
Charge for the year	164,650	15,810	180,460
At 31 December 2003	329,300	47,502	376,802
Net book value			
At 31 December 2003	1,317,200	110,602	1,427,802
Net book value			
At 31 December 2002	1,481,850	93,195	1,575,045

9. GOODWILL

GROUP	Positive goodwill £
Cost	
At 1 January 2003	1,790,742
At 31 December 2003	1,790,742
Amortisation	
At 1 January 2003	763,646
Charge for the year	519,839
At 31 December 2003	1,283,485
Net book value	
At 31 December 2003	507,257
Net book value	
At 31 December 2002	1,027,096

10. TANGIBLE FIXED ASSETS

GROUP	Furniture, fixtures and fittings £	Computer and office equipment £	Total £
Cost			
At 1 January 2003	12,691	21,417	34,108
At 31 December 2003	12,691	21,417	34,108
Depreciation			
At 1 January 2003	12,691	17,747	30,438
Provided in the year	–	1,353	1,353
At 31 December 2003	12,691	19,100	31,791
Net book value			
At 31 December 2003	–	2,317	2,317
Net book value			
At 31 December 2002	–	3,670	3,670
COMPANY			
	Furniture, fixtures and fittings £	Computer and office equipment £	Total £
Cost			
At 1 January 2003	12,691	21,417	34,108
At 31 December 2003	12,691	21,417	34,108
Depreciation			
At 1 January 2003	12,691	17,747	30,438
Provided in the year	–	1,353	1,353
At 31 December 2003	12,691	19,100	31,791
Net book value			
At 31 December 2003	–	2,317	2,317
Net book value			
At 31 December 2002	–	3,670	3,670

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2003

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11. FIXED ASSET INVESTMENTS

COMPANY	2003	2002
	£	£
Shares in subsidiary undertakings		
Balance at 1 January 2003	20,000	550,143
Additions in the year	9,221,967	200,000
Provision in the year	–	(730,143)
Disposal in the year	(60,000)	–
Balance at 31 December 2003	9,181,967	20,000

Additions relate to Eden Research Inc, as set out in note 21, and an additional £40,000 invested in PhytoGenics Ltd. The investment in subsidiary companies at book value comprises the following:

	2003	2002
	£	£
PhytoGenics Ltd	–	20,000
BioClinical Services Ltd	–	–
Eden Research Europe Ltd	–	–
Profemme Ltd	–	–
Eden Research Inc	9,181,967	–
	9,181,967	20,000

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

PHYTOGENICS LTD

- Management, development and marketing of nutraceuticals. This company was sold on 4 March 2003 for £60,000.

BIOCLINICAL SERVICES LTD

- This company was sold after the year end for £1.

EDEN RESEARCH EUROPE LTD (FORMERLY REDUCTOGEN LTD)

- The company remained dormant throughout the year.

PROFEMME LTD

- Research and development of pharmaceutical products. This company was sold after the year end for £1.

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.

All the subsidiary undertakings are wholly owned, except for Profemme Ltd, which is 99.7% owned. All the subsidiary undertakings are incorporated in Great Britain, except for Eden Research Inc, as noted above. The results of all the subsidiary undertakings are included in the consolidated financial statements.

11. FIXED ASSET INVESTMENTS (CONTINUED)

The minority interest in Profemme Ltd is considered immaterial to the presentation of the Group's results and is therefore not shown on the profit and loss account and consolidated balance sheet.

ARISTA BIOLOGICS INC

The Company holds 20% of the issued share capital of Arista Biologics Inc, a company incorporated in California, USA. The Group does not exercise any influence over this company, and it has accordingly been excluded from the consolidated financial statements. Details of the company's results for the year are set out below.

	2003 £	2002 £
Losses for the year	172,646	–
Capital and reserves	(167,022)	–

Principal activity: conducting research into the agricultural applications of terpenes.

12. DEBTORS

GROUP	2003 £	2002 £
Trade debtors	755	–
Other debtors	185,610	554
VAT recoverable	25,731	13,767
	212,096	14,321
COMPANY	2003 £	2002 £
Trade debtors	755	–
Other debtors	185,510	452
VAT recoverable	25,731	13,803
Amounts due from Group undertakings	–	40,000
	211,996	54,255

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2003

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13. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

GROUP	2003	2002
	£	£
Bank overdraft	8	11,725
Trade creditors	336,759	221,345
Other creditors	754,197	352,149
Accruals and deferred income	20,200	14,530
	1,111,164	599,749
COMPANY	2003	2002
	£	£
Bank overdraft	8	12,007
Trade creditors	336,759	219,362
Other creditors	754,197	351,171
Accruals and deferred income	20,200	14,530
	1,111,164	597,070

Included within the amount owing to other creditors is £122,436 due to Battlebridge Nominees Ltd. A debenture dated 24 May 2001 in favour of Battlebridge Nominees Ltd secures a fixed and floating charge over all assets, goodwill, stocks and book debts of the company.

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

14. CALLED-UP SHARE CAPITAL

	2003 £	2002 £
Authorised		
100,000,000 ordinary shares of £0.01 each (2002: 100,000,000)	1,000,000	1,000,000
Allotted and called up		
43,334,107 ordinary shares of £0.01 each (2002: 22,104,736)	433,341	221,048

SHARE OPTIONS

In addition to the directors' share options disclosed in the Report of the Directors, options with respect to 500,000 shares have been granted at a price of £0.30 exercisable between 28 February 2003 and 27 November 2007.

During the year, the Company allotted the following ordinary shares:

1 December 2003	20,404,371 shares at £0.45 with respect to the acquisition of Eden Research Inc, as set out in note 21.
8 December 2003	825,000 shares at £0.40 to raise additional working capital.

15. SHARE PREMIUM ACCOUNT

GROUP AND COMPANY	2003 £	2002 £
At 1 January 2003	8,546,135	5,340,653
Premium on shares issued in the year for cash	321,750	3,205,482
At 31 December 2003	8,867,885	8,546,135

16. MERGER RESERVE

GROUP AND COMPANY	2003 £	2002 £
At 1 January 2003	1,778,225	1,778,225
Acquisition during the year	8,977,923	–
At 31 December 2003	10,756,148	1,778,225

During the year, the Company acquired Eden Research Inc, as set out in note 21. A total of 20,404,371 shares in the Company were issued in exchange for 100% of the share capital of Eden Research Inc, and accordingly the premium arising on the shares issued has been recorded as a merger reserve in accordance with Section 131 of Companies Act 1985.

The balance brought forward on the merger reserve was created on the acquisition of Eden Research Europe Ltd (formerly Reductogen Ltd) on 20 February 1998 and the acquisition of Profemme Ltd on 11 January 2000.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2003

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17. PROFIT AND LOSS ACCOUNT

GROUP	2003	2002
	£	£
At 1 January 2003	(8,516,279)	(7,108,062)
Retained loss for the year	(1,031,306)	(1,408,217)
At 31 December 2003	(9,547,585)	(8,516,279)
COMPANY	2003	2002
	£	£
At 1 January 2003	(9,480,762)	(7,590,360)
Retained loss for the year	(574,180)	(1,890,402)
At 31 December 2003	(10,054,942)	(9,480,762)

18. RECONCILIATION OF MOVEMENTS ON SHAREHOLDERS' FUNDS

GROUP	2003	2002
	£	£
Loss for the financial year after taxation	(1,031,306)	(1,408,217)
New equity share capital issued (nominal value)	212,293	91,552
Share premium arising on new share capital subscribed	321,750	3,205,482
Merger reserve arising on acquisition	8,977,923	–
Opening shareholders' equity funds at 1 January 2003	2,029,129	140,312
Closing shareholders' equity funds at 31 December 2003	10,509,789	2,029,129
COMPANY	2003	2002
	£	£
Loss for the financial year after taxation	(574,180)	(1,890,402)
New equity share capital issued (nominal value)	212,293	91,552
Share premium arising on new share capital subscribed	321,750	3,205,482
Merger reserve arising on acquisition	8,977,923	–
Opening shareholders' equity funds at 1 January 2003	1,064,646	(341,986)
Closing shareholders' equity funds at 31 December 2003	10,002,432	1,064,646

19. COMMITMENTS**LEASE COMMITMENTS**

At 31 December 2003, the Group had annual commitments under non-cancellable operating leases as follows:

	2003 Land and buildings £	2002 Land and buildings £
Operating leases which expire – within one year	–	6,740

20. 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 in which K W Brooks was a partner until 31 March 2003, as follows:

	2003 £	2002 £
Provision of legal services	–	16,424

The Group has also 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:

	2003 £	2002 £
Provision of management and statutory secretarial services	15,839	22,697
Trade creditors due at the year end	9,574	–

During the year, Oxford Commercial Services Ltd advanced further funds to the Group totalling £25,000 (2002: £94,622). At the year end, the amount due to this company was £172,067 (2002: £147,067).

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

	2003 £	2002 £
Provision of consultancy services	18,131	–
Trade creditors due at the year end	–	–

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 Company paid £121,200 to Battlebridge Group Ltd with respect to management services. Battlebridge Group Ltd is not a related party, but during the year, K W Brooks, Oxford Commercial Services Ltd and Oxford Corporate Services Ltd provided facilities and services to Battlebridge Group Ltd on normal commercial terms. These services constituted part of the services provided to the Group by Battlebridge, although it is not possible to apportion the charges.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2003

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21. ACQUISITION OF SUBSIDIARY UNDERTAKINGS

On 1 December 2003, the Company acquired the whole of the share capital of Eden Research Inc for total consideration of £9,181,967, settled by the issue of 20,404,371 ordinary shares of £0.01 each at an issue price of £0.45.

Eden Research Inc had not traded in the period prior to acquisition, and its sole asset was intellectual property. The adjustment made to the book values of the assets to arrive at the fair values included in the consolidated financial statements at the date of acquisition is set out below. The directors consider the fair value of the intellectual property equates to the consideration.

	Book value £	Fair value adjustment £	Fair value to the group £
Intellectual property	–	9,181,967	9,181,967
Net assets acquired			9,181,967
Consideration			9,181,967
Goodwill arising			–

Eden Research Inc has remained dormant since acquisition. Accordingly, there are no post-acquisition profits, losses or cash flows attributable to Eden Research Inc.

22. POST-BALANCE SHEET EVENTS

Profemme Ltd and BioClinical Services Ltd were sold for £1 each after the year end.

23. 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:

	2003 £	2002 £
US Dollars Debtor	4,509	1,157
US Dollars Creditor	–	(4,200)

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.

Eden Research plc

Keble House, South Leigh, Witney, Oxon OX29 6UR

E info@edenresearchplc.co.uk

www.edenresearchplc.co.uk

Head office

T 01993 868844 F 01993 869301

Chairman's office

T 01993 862761 F 01993 776480