

**Registered number  
05696525**

**KURAWOOD PLC  
DIRECTORS' REPORT AND FINANCIAL STATEMENTS  
FOR THE 8 MONTHS ENDED 30 SEPTEMBER 2006**

**KURAWOOD PLC**

**COMPANY INFORMATION**

**DIRECTORS**

Kevin Fraser  
Roy Tilleard  
Justin Martin  
Peter McArthur

**SECRETARY**

Tanya Rhodes

**COMPANY NUMBER**

05696525

**REGISTERED OFFICE**

3rd Floor  
Eagle House  
110 Jermyn Street  
London  
SW1Y 6RH

**AUDITORS**

Rawlinson & Hunter  
Chartered Accountants & Registered Auditor  
Eagle House  
110 Jermyn Street  
London  
SW1Y 6RH

## KURAWOOD PLC

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## KURAWOOD PLC

### REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements for the 8 months ended 30 September 2006.

#### STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial period. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. The financial statements are required by law to 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;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable IFRS have been followed, 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 company will continue in business.

The directors confirm that they have complied with the above requirements in preparing the financial statements

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements and other information included in annual reports may differ from legislation in other jurisdictions.

In determining how amounts are presented within items in the income statement and balance sheet, the directors have had regard to the substance of the reported transaction or arrangement, in accordance with IFRS.

So far as each of the directors is aware at the time the report is approved:

- there is no relevant audit information of which the company's auditors are unaware, and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

## KURAWOOD PLC

### REPORT OF THE DIRECTORS (Continued)

#### PRINCIPAL ACTIVITIES AND REVIEW OF BUSINESS

The principal activity of the company is the promotion of organically hardened softwood.

The company was incorporated on 3 February 2006. During the period, the company issued 50,000 shares at par value for cash consideration.

The directors consider the results for the period and the state of the affairs of the company to be in line with expectations for the first period of trading.

#### RESULTS AND DIVIDENDS

The loss for the 8 months, after taxation, amounted to £1,299,055.

The directors are unable to authorise, and do not recommend the payment of, a dividend.

#### DIRECTORS

The directors who served during the 8 months and their interests in the company's issued share capital were:

	<b>Ordinary shares of £1 each</b>	
	<b>30/9/06</b>	<b>3/2/06</b>
Kevin Fraser (appointed 03/02/06)	<b>41,425</b>	49,000 *
Kay Elizabeth Fraser (appointed 03/02/06 & resigned 13/06/07)	<b>1,000</b>	1,000 *
Howard Grossman (appointed 08/02/06 & resigned 05/05/06)	<b>5,575</b>	-
Malcolm Ambrose (appointed 27/03/06 & resigned 05/05/06)	<b>2,000</b>	-

(\* held on date of appointment)

Roy Tilleard and Justin Martin were both appointed as directors of the company on 6 March 2007. Peter McArthur was appointed director on 13 June 2007.

#### EVENTS SINCE THE BALANCE SHEET DATE

At the date of signing the directors' report, the company is pursuing a fundamental restructuring which includes three key proposals:

- Firstly, the company is engaged in attempts to raise funds by means of an initial public offering (IPO) on the Alternative Investment Market (AIM).
- Secondly, if the IPO is successful the company intends to complete its purchase of a 100% stake in PG Industries Limited, a company incorporated in New Zealand. The company has made the first payment of £25,000 to the shareholders of PG Industries in regards to the intended purchase of shares.

**KURAWOOD PLC****REPORT OF THE DIRECTORS (Continued)**

- Thirdly, the company intends to renegotiate its financing as detailed in the "Current and Non-current liabilities notes" (Notes 14 and 15).

On 15 May 2007 the company entered into an operating lease to rent office space. The rent is £1,500 per annum and the lease is reviewable every three months.

**AUDITORS**

The auditors, Rawlinson & Hunter, will be proposed for reappointment in accordance with section 385 of the Companies Act 1985.

This report was approved by the board on 12 September 2007 and signed on its behalf.

**Kevin Fraser**

Director

## **KURAWOOD PLC**

### **INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF KURAWOOD PLC**

We have audited the accompanying financial statements of Kurawood plc for the 8 months ended 30 September 2006 which comprise the Income Statement, Statement of Change in Equity, the Balance Sheet, the Cash Flow Statement and the related notes. These financial statements have been prepared in accordance with the accounting policies set out therein.

This report is made solely to the company's Board of Directors, 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 auditors' 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' are responsible for preparing the financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards as adopted by European Union as 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 whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we 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 the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

#### **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 judgements 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 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.

**KURAWOOD PLC****INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF KURAWOOD PLC****OPINION**

In our opinion:

- the financial statements give a true and fair view, in accordance with International Financial Reporting Standards as adopted by the European Union, of the state of the company's affairs as at 30 September 2006 and of its loss and cash flows for the 8 months then ended;
- 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.

**Rawlinson & Hunter**

Chartered Accountants and Registered Auditor

Eagle House  
110 Jermyn Street  
London  
SW1Y 6RH

Date: 12 September 2007

**KURAWOOD PLC**  
**INCOME STATEMENT**  
**FOR THE 8 MONTHS ENDED 30 SEPTEMBER 2006**

	Note	8 months ended 30 September 2006 £
Revenue	1	-
Cost of sales		-
<b>GROSS PROFIT</b>		<u>-</u>
Administrative expenses – recurring		(493,613)
Administrative expenses – exceptional		<u>(769,841)</u>
<b>OPERATING LOSS</b>	2	(1,263,454)
Financial income	6	1,171
Financial expenses	7	<u>(36,772)</u>
<b>LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		(1,299,055)
Tax on loss on ordinary activities	8	<u>-</u>
<b>LOSS ON ORDINARY ACTIVITIES AFTER TAXATION</b>	17	<u><u>(1,299,055)</u></u>
All amounts relate to continuing operations.		
There were no recognised gains and losses for 2006 other than those included in the profit and loss account.		
<b>BASIC AND DILUTED LOSS PER SHARE</b>		
Continuing Operations	9	<u><u>£(25.98)</u></u>

The notes on pages 10 to 24 form part of these financial statements

**KURAWOOD PLC**

**STATEMENT OF CHANGES IN EQUITY**

**FOR THE 8 MONTHS ENDED 30 SEPTEMBER 2006**

	<b>Share Capital £</b>	<b>Retained Earnings £</b>	<b>Total Equity £</b>
Total equity at 3 February 2006	-	-	-
Loss for the 8 months	-	(1,299,055)	(1,299,055)
Issue of Ordinary Shares	50,000	-	50,000
Total equity at 30 September 2006	<u>50,000</u>	<u>(1,299,055)</u>	<u>(1,249,055)</u>

The notes on pages 10 to 24 form part of these financial statements

**KURAWOOD PLC**  
**BALANCE SHEET**  
**AS AT 30 SEPTEMBER 2006**

	Note	2006 £	£
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	10		3,415
Intangible assets	11		3
			3,418
<b>CURRENT ASSETS</b>			
Inventories	12	65,904	
Trade and other receivables	13	24,864	
Cash and cash equivalents		4,974	
			95,742
<b>CURRENT LIABILITIES</b>			
Short term borrowings	14	(660,000)	
Current portion of long term borrowings	14	(178,789)	
Trade and other payables	14	(151,536)	
			(894,583)
<b>NET CURRENT LIABILITIES</b>			<b>(894,583)</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			<b>(891,165)</b>
<b>NON-CURRENT LIABILITIES</b>			
Long term borrowings	15		(357,890)
<b>NET LIABILITIES</b>			<b>(1,249,055)</b>
<b>EQUITY</b>			
Share capital	16		50,000
Retained earnings	17		(1,299,055)
<b>TOTAL EQUITY</b>			<b>(1,249,055)</b>

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 12 September 2007

**Kevin Fraser**

Director

The notes on pages 10 to 24 form part of these financial statements

**KURAWOOD PLC**  
**CASH FLOW STATEMENT**  
**FOR THE 8 MONTHS ENDED 30 SEPTEMBER 2006**

	<b>Note</b>	<b>8 months ended 30 September 2006 £</b>
<b>Cash flows from operating activities</b>		
Cash used in operations	19	(719,410)
Interest expense	7	(93)
Interest received	6	1,171
		<hr/>
Net cash used in operating activities		(718,332)
		<hr/>
<b>Cash flows from investing activities</b>		
Purchases of property, plant and equipment	10	(3,714)
Purchases of intangible assets	11	(482,980)
		<hr/>
Net cash used in investing activities		(486,694)
		<hr/>
<b>Cash flows from financing activities</b>		
Proceeds from borrowings	20	1,160,000
Proceeds from issue of shares	16	50,000
		<hr/>
Net cash raised by financing activities		1,210,000
		<hr/>
<b>Net increase in cash and cash equivalents</b>	20	<b>4,974</b>
<b>Cash and cash equivalents at beginning of period</b>	20	<b>-</b>
		<hr/>
<b>Cash and cash equivalents at end of the period</b>	20	<b>4,974</b>
		<hr/> <hr/>

The notes on pages 10 to 24 form part of these financial statements

**KURAWOOD PLC**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE 8 MONTHS ENDED 30 SEPTEMBER 2006**

**1. ACCOUNTING POLICIES**

**1.1 Basis of preparation of financial statements**

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRIC interpretations as adopted by the European Union (EU) and with those parts of the Companies Act, 1985 applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention. A summary of the more important company accounting policies is set out below.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

The financial statements are also prepared on a going concern basis which assumes that the proposed fundraising is successful. The directors believe that it is more likely than not that the proposed fundraising referred to in Note 23 will be successful and will provide sufficient funds for the company to continue in operation for the foreseeable future and at least 12 months from the date of signing of these financial statements. Accordingly they consider adoption of the going concern basis to be appropriate.

**1.2 Revenue**

Revenue comprises the fair value of the consideration for the sale of goods and services, net of value added tax, rebates and discounts. Revenue from the sale of goods is recognised when the company has transferred risks and rewards of ownership of products to the customer, the amount of revenue can be measured reliably and collectability of the related receivables is reasonably assured.

**1.3 Intangible assets**

Intangible fixed assets are stated at cost less amortisation. Amortisation is provided at rates calculated to write off the cost of fixed assets, less their estimated residual value, over their expected useful lives.

Impairment reviews are performed at the end of the first full financial year following initial recognition and, thereafter, if subsequent events or changes in circumstances indicate that the carrying value may not be recoverable. Where appropriate, the intangible fixed assets are then written down to their recoverable amount.

## KURAWOOD PLC

### NOTES TO THE FINANCIAL STATEMENTS

#### FOR THE 8 MONTHS ENDED 30 SEPTEMBER 2006

#### 1.4 Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation. Depreciation is provided on all property, plant and equipment at rates calculated to write off the cost less residual value of each assets evenly over its expected useful life, as follows:

Leasehold		-	0% -11.4%	reducing balance
Motor vehicles		-	8.0%	reducing balance
Plant & equipment	either	-	2.0% - 18.0%	reducing balance
	or	-	18.6% - 28.8%	straight line
Office equipment and furniture	either	-	18.0%	reducing balance
	or	-	18.6% - 48.8%	straight line
Computer equipment		-	20%	straight line

#### 1.5 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method. The cost of finished goods comprises purchases of finished goods and any remanufacturing costs necessary to convert inventories to the requirements of the customer. It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

#### 1.6 Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

**KURAWOOD PLC**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE 8 MONTHS ENDED 30 SEPTEMBER 2006**

**1.7 Cash and Cash Equivalents**

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts are shown as borrowings within current liabilities on the balance sheet.

**1.8 Borrowing Costs**

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit and loss account over the period of the borrowings using the effective interest method. Interest is not capitalised within property, plant and equipment.

**1.9 Financial Instruments**

Financial assets and financial liabilities are recognised in the company's balance sheet when the company becomes a party to the contractual provisions of the instrument.

Long term receivables

Long term receivables are initially measured at fair value and are subsequently measured at amortised cost, using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired.

Trade receivable and trade payables

See 1.11 and 1.12 below.

Cash and cash equivalents

See 1.7 above.

Short term and long term borrowings

Short term and long term borrowings are initially measured at fair value and, are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the company's accounting policy for borrowing costs (see above).

Equity instruments

Equity instruments issued by the company are recorded at the proceeds received.

**KURAWOOD PLC****NOTES TO THE FINANCIAL STATEMENTS****FOR THE 8 MONTHS ENDED 30 SEPTEMBER 2006****1.10 Interest Expense**

Interest expense is recognised in the income statement on an accruals basis using the effective interest method.

**1.11 Trade Receivables**

Trade receivables are recorded at their nominal amount less any allowance for doubtful and irrecoverable debts.

**1.12 Trade Payables**

Trade payables are stated at their nominal value.

**1.13 Impairment of assets**

At each reporting date, the company assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the company makes an estimate of recoverable amount. Where the carrying value of an asset exceeds its recoverable amount the asset is written down to its recoverable amount. Recoverable amount is the higher of fair value less costs to sell and value in use and is deemed for an individual asset. If the asset does not generate cash flows that are largely independent of those from other assets or groups of assets, the recoverable amount of the cash generating unit to which the asset belongs is determined. Discount rates reflecting the asset specific risks and the time value of money are used for the value in use calculation.

**1.14 New IFRS standards adopted during 2006**

In the period, the following standards became effective and were adopted by the company:

- IAS 1 Presentation of Financial Statements
- IAS 2 Inventories
- IAS 7 Cash Flow Statements
- IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
- IAS 10 Events after Balance Sheet Date
- IAS 12 Income Taxes
- IAS 14 Segmental Reporting
- IAS 16 Property, Plant and Equipment
- IAS 18 Revenue
- IAS 19 Employee Benefits
- IAS 24 Related Party Disclosures
- IAS 32 Financial Instruments: Disclosure and Presentation
- IAS 33 Earnings per Share
- IAS 36 Impairment of Assets
- IAS 37 Provisions, Contingent Liabilities and Contingent Assets
- IAS 38 Intangible Assets
- IAS 39 Financial Instruments: Recognitions and Measurement

These financial statements represent the company's first accounting period. Therefore, the adoption of these standards has not had a significant impact on the results of the company in the period as no previous standards have been used by the company.

**KURAWOOD PLC**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE 8 MONTHS ENDED 30 SEPTEMBER 2006**

**1.15 Adopted IFRS not yet applied**

IFRS 7 (Financial Instruments: Disclosure) was available for early application but has not been applied by the company in these financial statements. It is applicable for years commencing on or after 1 January 2007. The application of IFRS 7 in the period to 30 September 2006 would not have affected the balance sheet or the income statement as the standard is only concerned with disclosures. The company plans to adopt the standard on 1 April 2007.

**2. OPERATING LOSS**

The operating loss is stated after charging:

	<b>8 months ended 30 September 2006 £</b>
Depreciation of tangible fixed assets:	
- owned by the company	299
Auditors' remuneration	5,000
Exceptional items:	
- Costs incurred in respect of aborted fundraising	286,864
- Impairment of intangible fixed assets (Note 11)	<u>482,977</u>

Included within "Costs incurred in respect of aborted fundraising" is £78,419 payable to Rawlinson & Hunter, the company's auditors.

**3. SEGMENTAL REPORTING**

In view of the fact that the company has not commenced significant trading no segmental analysis has been provided as per IFRS 14 (Segmental Reporting).

The assets and operating expenses by geographical location are as follow:

	<b>8 months ended 30 September 2006</b>	
	<b>Net Assets/ (liabilities) £</b>	<b>Operating expenses £</b>
United Kingdom	(1,314,959)	1,080,840
New Zealand	65,904	182,614
	<u>(1,249,055)</u>	<u>1,263,454</u>

**KURAWOOD PLC**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE 8 MONTHS ENDED 30 SEPTEMBER 2006**

**4. STAFF COSTS**

Staff costs, including directors' remuneration, were as follows:

	<b>8 months ended 30 September 2006 £</b>
Wages and salaries	159,553
Social security costs	<u>15,820</u>
	<u><u>175,373</u></u>

The average monthly number of employees, including the directors, during the 8 months was as follows:

	<b>No.</b>
Administration and sales	<u><u>10</u></u>

**5. DIRECTORS' REMUNERATION**

	<b>8 months ended 30 September 2006 £</b>
Emoluments	<u><u>12,423</u></u>

**6. FINANCIAL INCOME**

	<b>8 months ended 30 September 2006 £</b>
Bank interest receivable	<u><u>1,171</u></u>

**KURAWOOD PLC**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE 8 MONTHS ENDED 30 SEPTEMBER 2006**

**7. FINANCIAL EXPENSES**

	<b>8 months ended 30 September 2006 £</b>
On bank loans and overdrafts	93
On other loans	<u>36,679</u>
	<u><u>36,772</u></u>

**8. TAXATION**

**Factors affecting tax charge for the 8 months**

The company has no UK corporation tax charge for the period due to the loss before tax suffered by the company.

**Factors that may affect future tax charges**

The company has unutilised tax losses of approximately £732,000 available to carry forward against future trading profits of the company.

**9. LOSS PER SHARE**

Basic and diluted loss per share has been calculated by dividing the loss for the financial period attributable to ordinary shareholders amounting to £1,299,055 by 50,000 ordinary shares, the weighted average number in issue during the period.

**10. PROPERTY, PLANT AND EQUIPMENT**

	<b>Computer equipment £</b>
<b>Cost</b>	
<b>At 3 February 2006</b>	
Additions	3,714
	<u>3,714</u>
At 30 September 2006	<u>3,714</u>
<b>Accumulated Depreciation</b>	
<b>At 3 February 2006</b>	
Charge for the 8 months	299
	<u>299</u>
At 30 September 2006	<u>299</u>
<b>Net Book Value</b>	
At 30 September 2006	<u>3,415</u>
	<u><u>-</u></u>
At 3 February 2006	<u><u>-</u></u>

**KURAWOOD PLC**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE 8 MONTHS ENDED 30 SEPTEMBER 2006**

**11. INTANGIBLE ASSETS**

	Design £	Customer lists £	Brand and copyright £	Total £
<b>Cost</b>				
Additions	415,880	25,000	42,100	482,980
<b>At 30 September 2006</b>	<u>415,880</u>	<u>25,000</u>	<u>42,100</u>	<u>482,980</u>
<b>Amortisation</b>				
Impairment charge (Note 2)	415,879	24,999	42,099	482,977
<b>At 30 September 2006</b>	<u>415,879</u>	<u>24,999</u>	<u>42,099</u>	<u>482,977</u>
<b>Net book value</b>				
At 30 September 2006	<u><u>1</u></u>	<u><u>1</u></u>	<u><u>1</u></u>	<u><u>3</u></u>

On 15 May 2006 the company acquired the above intangible assets from Tardis Structures Limited ("Tardis") for consideration of £482,980. Following a review of the company's strategic objectives, an impairment review was undertaken and the intangible assets written down to their recoverable value.

**12. INVENTORIES**

	<b>2006</b>
	<b>£</b>
Finished goods and goods for resale	<u><u>65,904</u></u>

**13. TRADE AND OTHER RECEIVABLES**

	<b>2006</b>
	<b>£</b>
Other debtors	<u><u>24,864</u></u>

**KURAWOOD PLC**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE 8 MONTHS ENDED 30 SEPTEMBER 2006**

**14. CURRENT LIABILITIES**

**Amounts falling due within one year**

	<b>2006</b> <b>£</b>
Short term borrowings	<b>660,000</b>
Current portion of long term borrowings	<b>178,789</b>
Trade payables	<b>85,852</b>
Social security and other taxes	<b>38,695</b>
Other payables	<b>19,249</b>
Accruals and deferred income	<b>7,740</b>
	<b>151,536</b>
	<b>990,325</b>

Current portion of long term borrowings represents £178,789 in relation to a loan from General Capital Venture Finance Limited ("General Capital") that is disclosed in detail in note 15. The short term borrowings wholly represent monies owed to third party holders of subordinated loans.

The key features of the original agreements governing the subordinated loans were:

- The subordinated loans are interest free and unsecured.
- Repayment of the subordinated loans was due immediately upon receipt of placing proceeds to be raised on a flotation of the company on AIM by 31 October 2006.

Since the proposed flotation had not occurred by 31 October 2006, the lenders became entitled to subscribe at any time, at a set price, for a set percentage of ordinary shares in the company.

On or before 12 September 2007, all holders of the subordinated loans entered into a Conversion Agreement with the company. The Conversion Agreement is part of the fundamental restructuring detailed in note 23 "Events after the balance sheet date".

If the company is not admitted to AIM by 28 September 2007, the Conversion Agreement shall cease to have effect. In this scenario the loans will revert to original agreements and their terms that are detailed above.

**KURAWOOD PLC**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE 8 MONTHS ENDED 30 SEPTEMBER 2006**

**15. NON-CURRENT LIABILITIES**

**Amounts falling due after more than one year**

	<b>2006</b> <b>£</b>
Loans	<b><u>357,890</u></b>

Loans due after more than one year wholly represent monies owed to General Capital.

The key features of the original agreement governing the General Capital loan were:

- From inception to 31 October 2006, interest accrued on the outstanding principal at the rate of 1% per month. Interest accruing during this period was capitalised and added to the outstanding principal of the loan on 31 October 2006.
- From 31 October 2006 to 31 January 2007, interest accrued on the outstanding principal at the rate of 1.5% per month. Such interest was due and payable to General Capital on the last day of each month.
- From 31 January 2007, interest accrues daily on the outstanding principal at the rate of 18% per annum. Such interest is due and payable to General Capital on the last day of each month.
- Repayment of the loan was due within three business days of the company being admitted to AIM by 31 October 2006.
- Since the proposed flotation had not occurred by 31 October 2006, repayment of the loan was due in full by 31 January 2007.
- Since repayment of the loan was not made by 31 January 2007, repayment has become due in 36 monthly instalments ending 31 January 2010.
- At the relevant balance sheet dates, the General Capital loan was secured by a guarantee and debenture over the company's assets and personal guarantee provided by Kevin Fraser, a director of the company (see note 22).
- General Capital were granted a warrant certificate to subscribe for ordinary shares in the share capital of the company with a value of £1,250,000 by reference to the placing price on a subsequent admission to AIM at a subscription price of £0.01 per ordinary share.

On or before 12 September 2007, General Capital entered into a Loan Settlement Agreement and a Vaporisation Agreement with the company.

Under the terms of the Loan Settlement Agreement the company is entitled to repay the General Capital £690,000 in settlement of all amounts due to General Capital in respect of principal and interest on the loan provided such payment is made on or before 13 September 2007.

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**15. NON-CURRENT LIABILITIES**

**Amounts falling due after more than one year (Continued)**

Under the terms of the Vaporisation Agreement the company shall conditional on admission to AIM purchase the original warrant from General Capital for £600,000 to be satisfied by the issue of a loan note by the company to General Capital of £600,000 repayable on 12 September 2011 or at the company's option on one months notice. Interest is payable on the loan at the rate of 6% from the second anniversary of its issue and the loan is unsecured.

The Loan Settlement Agreement and Vaporisation Agreement are part of the fundamental restructuring detailed in Note 23 "Events after the balance sheet date".

If the company is not admitted to AIM by 13 September 2007, the Vaporisation Agreement shall cease to have effect and if the loan is not repaid by 13 September 2007 the Loan Settlement Agreement shall cease to have effect. In this scenario, the General Capital creditor will revert to the original agreements and the terms that are detailed above.

**16. SHARE CAPITAL**

	<b>2006</b> <b>£</b>
<b>Authorised, allotted, called up and fully paid</b>	
50,000 Ordinary shares of £1 each	<b>50,000</b>
	<b>50,000</b>

During the period, 50,000 ordinary shares of £1 each were issued at par value, for cash consideration to provide finance for the operations of the company.

**17. RETAINED EARNINGS**

	<b>Profit and loss account</b> <b>£</b>
Loss retained for the 8 months	<b>(1,299,055)</b>
At 30 September 2006	<b>(1,299,055)</b>
	<b>(1,299,055)</b>

**18. FINANCIAL INSTRUMENTS**

The company's financial instruments comprise borrowings, cash and cash equivalents, and financial assets and various items such as trade receivables, trade payables and accruals that arise directly from its operations.

The main purpose of these financial instruments is to finance the company's operations.

The Board of directors regularly reviews and agrees policies for managing the level of risk arising from the company's financial instruments. These are summarised below:

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**18. FINANCIAL INSTRUMENTS (Continued)**

**Interest rate risk** – The company has various long and short-term borrowings and borrowing facilities in Sterling. The company's exposure to movements in interest rates is regularly reviewed.

**Liquidity risk** – The company's policy is to maintain a mix of short and long-term borrowings with its lenders.

**Credit risk** – The risk of financial loss due to a counterparty's failure to honour its obligations arises principally in relation to transactions where the company provides goods and services on deferred terms.

The company's policies are aimed at minimising such losses, and require that deferred terms are granted only to customers who demonstrate an appropriate payment history and satisfy creditworthiness procedures. Individual exposures are monitored with customers subject to credit terms to ensure that the company's exposure to bad debts is minimised. Goods may be sold on a cash with order basis to mitigate credit risk. In some cases bad debt insurance is purchased where the cost is not excessive when compared to the risks covered.

**Financial liabilities**

The company held the following financial liabilities at 30 September 2006:

	£
Loans falling due in less than one year	838,789
Loans falling due after one year but less than 5 years	357,890
Trade and other payables (due within one year)	151,536
	1,348,215
	1,348,215

The financial liabilities comprising short-term and long-term loans had the following interest and currency profile:

	Fixed rate financial liabilities £	Financial liabilities on which no interest is paid £
Sterling	536,679	660,000
	536,679	660,000
	536,679	660,000

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**Fixed rate financial liabilities**

Interest rate profile at 30 September 2006:

	<b>Weighted average interest rate %</b>
Sterling	<b><u>19.6</u></b>

**Other financial liabilities**

In addition, as discussed in Notes 15 and 21, the company has a share warrant agreement with General Capital. As at 30 September 2006, the share warrants are not recognised as a financial liability as the company did not have a contractual obligation in respect of these warrants at that date. The contingent liability relating to these warrants is disclosed in Note 21.

**Currency exposures**

At 30 September 2006 the company had no material currency exposures relating to trading activities

**19. CASH USED IN OPERATIONS**

	<b>8 months ended 30 September 2006 £</b>
Loss on ordinary activities before tax	<b>(1,299,055)</b>
Depreciation of property, plant and equipment	<b>299</b>
Finance income	<b>(1,171)</b>
Finance charge	<b>36,772</b>
Impairments of intangible assets	<b>482,977</b>
Increase in inventories	<b>(65,904)</b>
Increase in receivables	<b>(24,864)</b>
Increase in payables	<b>151,536</b>
<b>Cash used in operations</b>	<b><u>(719,410)</u></b>

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**20. ANALYSIS OF CHANGES IN NET BORROWINGS**

	3 February 2006 £	Cash flow - non financing £	Cash flow - financing £	30 September 2006 £
Cash and cash equivalents:	-	4,974	-	4,974
<b>Borrowings:</b>				
Short term borrowings	-	-	(826,570)	(826,570)
Long term borrowings	-	-	(333,430)	(333,430)
<b>Net Borrowings</b>	<u>-</u>	<u>4,974</u>	<u>(1,160,000)</u>	<u>(1,155,026)</u>

**21. CONTINGENT LIABILITIES**

As detailed in Notes 15 and 18, as at 30 September 2007, Kurawood Plc had contingent liabilities in respect to the share warrants. Under the terms of the Vaporisation Agreement the company shall conditional on admission to AIM purchase the original warrant from General Capital for £600,000 to be satisfied by the issue of a loan note by the company to General Capital of £600,000 repayable on 12 September 2011 or at the company's option on one months notice. Interest is payable on the loan at the rate of 6% from the second anniversary of its issue and the loan is unsecured.

**22. RELATED PARTY TRANSACTIONS**

On 15 May 2006 the company entered into a Netting and Set-Off Agreement with Tardis and General Capital ("the Agreement"). At the time of the Agreement, Kevin Fraser, the ultimate controlling party of the company, held 42% of the issued share capital of Tardis. Under the Agreement the company acquired certain assets of Tardis for consideration of £500,000. The acquisitions from Tardis were financed by way of General Capital making available to the company a £600,000 term loan facility. At the period end there were no balances remaining outstanding with Tardis.

The loans payable by the company to General Capital, detailed in Notes 14 and 15, were, at the relevant balance sheet dates, secured by a personal guarantee provided by Kevin Fraser.

Included in "Costs incurred in respect of aborted fundraising", (Note 2), are consultancy fees charged for services provided by Malcolm Ambrose (£13,200) and Howard Grossman (£5,000), who both served as directors during the period. At the period end there were no balances remaining outstanding with either Malcolm Ambrose or Howard Grossman.

Included in "Other payables", per Note 14, is £19,249 being an amount the company is to reimburse to Kevin Fraser. The amount relates to certain expenses that Kevin Fraser has paid for on behalf of the company.

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**23. EVENTS AFTER THE BALANCE SHEET DATE**

At the date of signing the directors' report, and these financial statements, the company is pursuing a fundamental restructuring which includes three key proposals:

- Firstly, the company is engaged in attempts to raise funds by means of an initial public offering (IPO) on the Alternative Investment Market (AIM).
- Secondly, if the IPO is successful the company intends to complete its purchase of a 100% stake in PG Industries Limited, a company incorporated in New Zealand. The company has made the first payment of £25,000 to the shareholders of PG Industries in regards to the intended purchase of shares.
- Thirdly, the company intends to renegotiate its financing as detailed in the "Current and Non-current liabilities notes" (Notes 14 and 15).

On 15 May 2007 the company entered into an operating lease to rent office space. The rent is £1,500 per annum and the lease is reviewable every three months.

**24. CONTROLLING PARTY**

The directors regard the ultimate controlling party to be Kevin Fraser.