

Registered number
05696525



KURAWOOD PLC

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE 12 MONTHS ENDED 30 SEPTEMBER 2007

KURAWOOD PLC AND SUBSIDIARY

COMPANY INFORMATION

COMPANY NUMBER	05696525
DIRECTORS	R W Tilleard (appointed 6 March 2007) K Fraser J G Martin (appointed 6 March 2007) P D McArthur (appointed 13 June 2007) P J S Hammonds (appointed 13 September 2007) K E Fraser (resigned 6 June 2007)
SECRETARY	T E Rhodes (appointed 13 June 2007) K E Fraser (resigned 13 June 2007)
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
NOMINATED ADVISER	City Financial Associates Limited 46 Worship Street London, EC2A 2EA
REGISTRAR	SLC Registrars Limited 42 – 46 High Street Esher Surrey, KT10 9QY
SOLICITORS	Manches LLP Aldwych House 81 Aldwych London, WC2B 4RP
CORPORATE BROKER	St Helen's Capital Plc St Helen's Place London, EC3A 6DE
PRIVATE CLIENT BROKER	Ellis Stockbrokers Limited Talisman House Jubilee Walk Crawley W Sussex, RH10 1LQ

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CHAIRMAN AND CHIEF EXECUTIVE'S REPORT

This has been a landmark year for Kurawood Plc ("Kurawood" or the "Company") with the simultaneous acquisition of PG Industries Limited ("PGI") and admission to AIM on 18 September 2007 ("Admission"). These accounts present the consolidated financial performance of the newly formed group (comprising both Kurawood and PGI and collectively the "Group"), being for Kurawood for the full year and for PGI for the period from 18 to 30 September 2007. For the avoidance of doubt, these accounts contain no real trading results for either PGI or Kurawood as the funding required for the business strategy (as described in the admission document dated 13 September 2007) was only put in place 12 days prior to the period end. For the support shown by both external advisers and both old and new shareholders I extend my personal thanks and the appreciation of the Board. We welcome you as fellow shareholders in this exciting company.

Principal Activity

The principal activity of the Group is the development and commercialisation of its proprietary VECO® formulation and process for the manufacture of VECOwood® branded organically modified softwood. VECOwood® is currently only manufactured from New Zealand Radiata Pine, a resource supplied entirely from Forestry Stewardship Council certified fast-growing plantation forests, planted, managed, and harvested with little environmental consequence. Since the practise of 'pruning' and 'thinning' is widely used in New Zealand, the logs, when sawn and treated with our VECO® formulation, produce long wide planks of clear, defect free VECOwood® timber, similar in appearance and physical properties to those once able to be sourced from huge hardwood specimens.

Sales and Marketing

Shortly after Admission, the Company met with a large number of its target customers and exhibited at "Interbuild 2007", (the UK's most comprehensive event on the construction calendar), receiving strong customer interest from multi-disciplined timber consumers through to specialist contractors, general builders, installers and a wide array of end users. Currently we have in excess of 40 qualified prospective customers and have almost double this number of identified target customers whose interest has yet to be qualified. (Organisations are deemed as qualified prospective customers when we have met with senior representatives of the relevant organisation and discussed the advantages of VECOwood®, the target wholesale price per cubic metre, potential quantities demanded and delivery schedules, with the relevant organisation re-affirming its interest to be a customer of the Company). As expected, most qualified customers are requesting additional samples of VECOwood® both in rough wood (planks of VECOwood® in standard width and depth measurements but of mixed length) and end-product formats, (such as kitchen worktops, mouldings, architraves, stair parts and flooring, all manufactured from VECOwood®), before confirming order levels, with the majority seeking to enter into long-term Supply of Goods Agreements.

With the funding provided at Admission, the Company anticipates this first batch of these additional sample products will be delivered to prospective customers within the coming weeks with orders and Agreements being executed shortly thereafter. As such we hope to be delivering and invoicing initial rough wood sales within the next two to three months and end-product format sales shortly thereafter. We look forward to informing you as and when these initial sales and long-term Supply of Goods Agreements are concluded.

Manufacturing Capacity

The present VECOwood® manufacturing facility is operating within our performance criteria giving us a quality assured supply currently equating to 5,000 m³ of annual capacity. Any one of the qualified customers noted above has the capability to consume this entire annual capacity. On the back of the interest shown, the Board has authorised an initial capital expenditure investment of £150,000 into PGI which is being utilised to move to new facilities with an increased initial installed capacity to produce 30,000 m³ of organically modified VECOwood® per annum. Becoming operational in January 2008, the land and buildings are sufficient to house installed capacity of up to 250,000 m³ per annum as and when required.

CHAIRMAN AND CHIEF EXECUTIVE'S REPORT (Continued)

Financial Results

The financial results reported herein reflect the costs incurred by Kurawood to acquire PGI and Admission. The widespread enthusiasm shown for VECOwood® and our assessment of the scale of interest that we face has led the Board to conclude that the business should focus on the continued scale up of our new facilities to enable the Group to deliver ever larger client orders and to move, where possible, to trading on an ex-factory New Zealand basis.

Prospects

The prospects for 2007/8 are exciting and I expect to report significant revenue growth during the course of the year. The Board will continue to explore ways to create the best shareholder value and return possible by entering into long term Supply of Goods Agreements and formalising partnering arrangements with our preferred re-manufacturers whilst investigating avenues and opportunities to enhance gross margins.

Conclusion

As mentioned at the beginning of my statement, it has been a pleasure to serve as your Chairman during the past year and I am confident that we can be tremendously successful with the foundations that we have built and, perhaps most importantly, with the continued excellent support of all our shareholders.

R. W. TILLEARD
Chairman & C. E O.

6 December 2007

FINANCE REPORT

The Board undertook a refinancing of Kurawood in conjunction with the acquisition of PGI and Admission. The principal elements of this refinancing exercise were as follows:

- (1) On 18 September 2007, the Company acquired the entire issued share capital of PGI, the New Zealand company which holds the intellectual property for the VECO® process and which manufactures VECOwood®, for a total consideration of £4.767 million satisfied by the issue of 4.767 million ordinary shares.
- (2) On 18 September 2007, the Company placed a further 4.5 million ordinary shares with investors raising £4.50 million gross of expenses (costs of the Admission and the Acquisition together totalled £0.94 million including a 5% brokerage fee), (the "Placing").
- (3) As a result, the Company's cash reserves were considerably strengthened with current cash balances standing at £4.95 million as of 30 September and at £4.14 million as at the date of approval for issuance of these Reports and Accounts. All newly issued shares qualify for Enterprise Investment Scheme ("EIS") and Venture Capital Trust ("VCT") relief.
- (4) In addition to the Placing referred to above, the Company secured a £2.00 million Term Loan provided by Barclays Private Clients International Limited. The Term Loan is initially secured on an equivalent amount of cash held on deposit. This level of security is to be reviewed periodically with Barclays and may be reduced as the business develops.
- (5) The Company repaid £0.69 million of existing secured debts immediately following Admission and arranged for a further £0.66 million of subordinated loans to be converted to equity in order to improve the net asset position of the Company. Additionally, warrants issued in May 2006 in favour of the secured debt provider have been acquired and voided by the Company for a 'fee' of £0.60 million, paid for by the issue of an unsecured Loan Note repayable on or before 12 September 2011. As at 30 September 2007, the Company's long term borrowings stood at £2.54 million.
- (6) The Board have arranged a £3.00 million confidential invoice discounting facility from GE Commercial Finance Limited, allowing the Company to draw funds equivalent to up to 70 per cent. of each invoice despatched, subject to the overall facility limit and certain other conditions. Additional working capital facilities, such as import duty deferment bonds and letters of credit with key suppliers are also being investigated which, if entered into, will enhance the working capital available to the Group.

As a result of the above transactions, the Group's balance sheet has been strengthened considerably with net assets as at 30 September 2007 of £7.19 million. Whilst the Group made a loss of £5.60 million on ordinary activities after taxation, some £5.14 million of these losses are attributable to the exceptional costs to acquire PGI, Admission and the 'fee' noted in point (5) above. Recurring administrative expenses for the year under review stood at £0.35 million.

The Board estimate that as a result of the above, the Group has sufficient financial resources and facilities in hand to manufacture and distribute circa 40,000 m³ of VECOwood® over the forthcoming 18 months. The Board have further re-validated the targeted wholesale price for VECOwood® of £650 per m³ to £750 per m³ with a number of qualified prospective customers.

J. G. MARTIN
C. F. O.

6 December 2007

REPORT ON CORPORATE GOVERNANCE FOR THE YEAR ENDED 30 SEPTEMBER 2007

The Board recognise the importance of sound corporate governance commensurate with the size of the Company, its overseas operations and the interests of shareholders. The Board intend that the Company will comply with the QCA Corporate Governance Guidelines for AIM Companies and the Combined Code, insofar as it is practicable for a company of its size. On Admission, the Board comprised four executive directors and one non-executive director. The Board has also considered the guidance issued by the Institute of Chartered Accountants in England and Wales (commonly known as the Turnbull Report) concerning the internal control requirements of the Combined Code. The Board intends regularly to review key business as well as financial risks facing the Group in the operation of its business.

Board and Board Committees

The Board has convened meetings on a regular monthly basis with a quorum present at every meeting. The Board has established an Audit Committee, Remuneration Committee and AIM Compliance Committee with formally delegated duties and responsibilities. These committees have all convened once since Admission and have submitted separate reports for inclusion in this Annual Report.

Relationship with shareholders

The Board places considerable importance on creating and maintaining a strong relationship with its shareholders.

Accountability and financial control

The Board has overall responsibility for the systems of financial control. Implementation and maintenance of the financial control systems is the responsibility of executive management. It should be understood, that such systems are designed to provide reasonable but not absolute assurance against material misstatement or loss. As a result the Company has enhanced the framework of internal financial controls which reflect the current scale of group activities, the key features of which are as follows:

- (1) Control environment: There are clearly defined organisational responsibilities and the Board is committed to employing suitably qualified staff so that the appropriate level of authority can be delegated with regard to accountability and acceptable levels of risk.
- (2) Identification and evaluation of business risks and controls: Management control is exercised at all levels of the Group and is regulated by appropriate limits of authority. The directors have considered various areas of business risks and have developed appropriate policies to manage and diffuse those risks. These policies are reviewed in the light of known and perceived changes to the risks.
- (3) Quality and integrity of personnel: The Group attaches high importance to the values of trust, honesty and integrity of personnel in responsible positions and operates a policy of recruitment and promoting suitably experienced personnel with clearly defined accountabilities.
- (4) Investment appraisal: Capital investment is a significant element of the Group's operations; all major expenditure is included in the annual budget and is reported on to the Board. In addition, all potential and actual acquisition opportunities are regularly reviewed by the Board, both in meetings and by ad hoc reports.
- (5) Monitoring: Given the size of the Group and the close day-to-day involvement of the executive directors no formal internal audit function is considered necessary.

R. W. TILLEARD
Chairman & C.E.O.

6 December 2007

REPORT OF THE REMUNERATION COMMITTEE FOR THE YEAR ENDED 30 SEPTEMBER 2007

The Remuneration Committee is currently comprised of Executive Chairman and CEO, Mr Roy Tilleard, and Non-executive Director, Mr Peter Hammonds, with the latter acting as Chairman of this Committee. The Remuneration Committee operates pursuant to its terms of reference that are available on the Company's website at www.kurawood.com.

The policy of the Group is to offer competitive remuneration packages that will attract, retain and motivate experienced and talented individuals who will enhance the value of the Company and its subsidiaries. The remuneration packages of the executive directors are reviewed and approved by the Remuneration Committee on an annual basis. The remuneration of other employees is the responsibility of the CEO.

Remuneration of the directors

During the year to 30 September 2007, the executive directors were paid a basic salary. In addition, on Admission certain directors, and parties related to them were awarded share options as more fully disclosed in the Admission document. Directors receive no benefits in kind.

The remuneration of executive and non-executive directors is approved by the Board.

Furthermore, the Board have undertaken to appoint a second non-executive director during the period ending 31 March 2008 who will be appointed to replace Mr Tilleard on the Remuneration Committee, bringing additional independence, experience and other qualification requirements to assist the Company in meeting its obligations under the QCA Corporate Governance Guidelines for AIM Companies, the Combined Code and the AIM Rules of the London Stock Exchange.

Directors' Service Agreements

Mr K Fraser and Mr McArthur entered into new service agreements with the Company on 18 September 2007. On 13 September 2007, the Company and Fox Capital Limited also entered into a Consultancy Services Agreement for the services of Mr Tilleard and Mr Martin, details of which are as follows:

Director	Date of Agreement	Term	Notice Period
R W Tilleard	13 September 2007	Continuous	6 months
K E Fraser	18 September 2007	Continuous	6 months
J G Martin	13 September 2007	Continuous	6 months
P D McArthur	18 September 2007	Continuous	6 months
P J S Hammonds	13 September 2007	3 years	3 months

Mr Hammonds, a non-executive director, does not have a service agreement, but his letter of appointment provides that his tenure of office is for an initial term of three years and shall continue until either terminated by the non-executive director or the Company on giving to the other 3 months prior written notice.

P.J.S. HAMMONDS
Chairman of the Remuneration
Committee

6 December 2007

REPORT OF THE AUDIT COMMITTEE FOR THE YEAR ENDED 30 SEPTEMBER 2007

The Audit Committee is currently comprised of Executive Chairman and CEO, Mr Roy Tilleard, and Non-executive Director, Mr Peter Hammonds, with the latter acting as Chairman. The Audit Committee operates pursuant to its terms of reference that are available on the Company's website at www.kurawood.com.

The Audit Committee has had one meeting since Admission. The Audit Committee oversees the Company's financial reporting process on behalf of the Board. Company management has the primary responsibility for the financial statements and the reporting process. The independent auditors are responsible for expressing an opinion on the conformity of the Company's consolidated financial statements with International Financial Reporting Standards.

In this context, the Audit Committee has reviewed and discussed with management the audited financial statements, including matters of special interest in the current environment and the processes that support certifications of financial statements by the Company's Chairman & Chief Executive Officer and Chief Financial Officer.

The Audit Committee recommend one change in accounting policy being the treatment of depreciation on Motor vehicles from an 8% reducing balance to a 20% straight line basis. This change of accounting policy has been adopted by the Chief Financial Officer from 1 October 2007 and the Board are satisfied that this change does not give rise to any significant or material change in these or any historical accounts prepared by the Company.

In reliance on the reviews and discussions referred to above, the Audit Committee recommended to the Board, and the Board approved, that the audited financial statements be included in the Company's Annual Report for the year ended 30 September 2007 for filing at Companies House. The Audit Committee has also selected Rawlinson & Hunter as the independent auditors for the Company and its subsidiaries for 2008. The Board has concurred in that selection and will present the matter to the shareholders of the Company for ratification at the forthcoming Annual General Meeting.

Furthermore the Board has undertaken to appoint a second non-executive Director during the period ending 31 March 2008 who will be appointed to replace Mr Tilleard on this Audit Committee, bringing additional independence, experience and other qualification requirements to assist the Company in meeting its obligations under the QCA Corporate Governance Guidelines for AIM Companies, the Combined Code and the AIM Rules of the London Stock Exchange.

P.J.S. HAMMONDS
Chairman of the Audit
Committee

6 December 2007

REPORT OF THE AIM COMPLIANCE COMMITTEE FOR THE YEAR ENDED 30 SEPTEMBER 2007

Kurawood is quoted on AIM and, as such under AIM Rule 31, the Company is required to:

- (1) have in place sufficient procedures, resources and controls to enable its compliance with the AIM Rules;
- (2) seek advice from its nominated adviser ("Nomad") regarding its compliance with the AIM Rules whenever appropriate and take that advice into account;
- (3) provide the Company's Nomad with any information it requests in order for the Nomad to carry out its responsibilities under the AIM Rules for Companies and the AIM Rules for Nominated Advisers;
- (4) ensure that each of the Company's directors accepts full responsibility, collectively and individually, for compliance with the AIM Rules; and
- (5) ensure that each of the Company's directors discloses without delay all information which the Company needs in order to comply with AIM Rule 17 (Disclosure of Miscellaneous Information) insofar as that information is known to the director or could with reasonable diligence be ascertained by the director.

In order to ensure that these obligations are being discharged the Board has established an AIM Compliance Committee (the "AIM Committee"), chaired by Mr Peter Hammonds, a non-executive director of the Company.

Having reviewed relevant Board papers, and discussed with the Company's Executive Board and the Company's Nomad to ensure that such is the case, the AIM Committee is satisfied that the Company's obligations under AIM Rule 31 have been satisfied during the period under review.

P.J.S. HAMMONDS
Chairman of the AIM
Compliance Committee

6 December 2007

REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements for the 12 months ended 30 September 2007. The comparatives in these financial statements cover the 8 month period 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 the Group and of the profit or loss of the Group 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 and Group 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 Group 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 Group 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 Group'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.

PRINCIPAL ACTIVITIES, REVIEW OF BUSINESS AND FUTURE DEVELOPMENTS

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

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

REPORT OF THE DIRECTORS (Continued)

Further details regarding the development of the Group's business in the year and future outlook are set out in the Chairman and Chief Executive's Report and the Finance Report on pages 4 and 6 respectively.

RESULTS AND DIVIDENDS

The loss for the 12 months, after taxation, amounted to £5,596,832 (8 months to 30 September 2006: £1,299,055 loss).

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

FINANCIAL INSTRUMENTS

Details of the Group's financial instruments including the financial risk management objectives and policies of the Group and the exposure of the Group to interest rate, liquidity, credit and foreign exchange risk are given in Note 20.

DIRECTORS AND THEIR INTERESTS IN THE COMPANY'S SHARES

The directors who served during the 12 months and their interests in the Company's issued share capital were:

	Ordinary shares of £0.01 (2006 - £1) each		Deferred shares of £0.01 each	
	30/9/07	30/9/06	30/9/07	30/9/06
Kevin Fraser ¹	650,549	41,425	4,249,452	-
Roy Tilleard (appointed 06/03/07) ²	2,383,500	-	-	-
Justin Martin (appointed 06/03/07) ²	2,383,500	-	-	-
Peter McArthur (appointed 13/06/07)	1,706,800	-	-	-
Peter Hammonds (appointed 13/09/07)	10,000	-	-	-
Kay Fraser (resigned 06/06/07)	13,276	8,575	86,723	-

¹ Kay Fraser, the spouse of Kevin Fraser holds an additional 13,276 ordinary shares and 86,723 deferred shares of the issued share capital of the Company as at 30 September 2007.

² The holdings shown above for each of Roy Tilleard and Justin Martin reflect the fact that Fox Capital Limited, a company in which they each hold a 50 per cent interest, has a holding of 4,767,000 ordinary shares in the Company.

DIRECTORS AND THEIR INTERESTS IN THE COMPANY'S SHARES (Continued)

Kevin Fraser has been granted 100,000 Share Options under an EMI Scheme and a further 800,000 under an unapproved share option scheme. Kay Fraser has also been granted 100,000 Share Options under the EMI scheme. Refer to Note 18 for details of the options issued. No other options have been granted to any other individual.

Details of changes to the Company's authorised and issued share capital are set out in Note 19.

REPORT OF THE DIRECTORS (Continued)

SUBSTANTIAL SHAREHOLDINGS

At 30 November 2007 the registrar recorded the following as holding an interest of 3% or more in the issued share capital of the Company:

	Number of ordinary shares of £0.01 each	Percentage
Fox Capital Limited (a company controlled by Roy Tilleard and Justin Martin)	4,767,000	28.04%
Peter Duncan McArthur	1,706,800	10.04%
Ian Douglas Macrae	1,706,800	10.04%
Credit Suisse Client Nominees (UK) Limited	1,700,000	10.00%
Pershing Keen Nominees Limited	1,014,263	5.97%
Graeme Hugh Charles Fraser	853,400	5.02%
Nortrust Nominees Limited	700,000	4.12%
Hargreave Hale Nominees Limited	684,987	4.03%
Roman Tehrani	652,525	3.84%
Kevin Fraser	650,549	3.83%
Barnard Nominees Limited	611,757	3.60%

The registrar reported no other person as holding an interest of 3% or more in the Company's ordinary shares.

POLICY ON PAYMENT TO SUPPLIERS

It is the Company's policy to pay all suppliers no later than 30 working days from the end of the month in which the invoice was submitted. This policy is made known to the staff that handle payments to suppliers and is made known to suppliers on request.

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 6 December 2007 and signed on its behalf.

Justin Martin
Director

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF KURAWOOD PLC

We have audited the accompanying consolidated financial statements of Kurawood and its Subsidiary (collectively, the "Group") for the 12 months ended 30 September 2007 which comprise the Consolidated Income Statement, Statement of Changes in Equity, the Company and Group Balance Sheet, the Consolidated 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 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 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 Report of the Directors is consistent with the financial statements. The information given in the Report of the Directors includes that specific information presented in the Chairman and Chief Executive's Report and the Finance Report that is cross referred from the Principal activities, review of business and future developments section of the Report of the Directors.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only the Chairman and Chief Executive's Report, the Finance Report, the Report on Corporate Governance, the Report of the Remuneration Committee, the Report of the Audit Committee 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.

In addition we report to you if, in our opinion, the Company or 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 other transactions is not disclosed.

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 and Group's circumstances, consistently applied and adequately disclosed.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF KURAWOOD PLC (Continued)

BASIS OF AUDIT OPINION (continued)

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

OPINION

In our opinion:

- the 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 and Group's affairs as at 30 September 2007 and of the Group's loss and cash flows for the 12 months then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Report of the Directors is consistent with the financial statements.

Rawlinson & Hunter

Chartered Accountants and Registered Auditor

Eagle House
110 Jermyn Street
London
SW1Y 6RH

6 December 2007

CONSOLIDATED INCOME STATEMENT FOR THE 12 MONTHS ENDED 30 SEPTEMBER 2007

	Note	12 months ended 30 September 2007 £	8 months ended 30 September 2006 £
Revenue	3	36,400	-
Cost of sales		(21,853)	-
GROSS PROFIT		<u>14,547</u>	<u>-</u>
Administrative expenses – recurring		(347,623)	(493,613)
Administrative expenses – exceptional	2	(5,144,018)	(769,841)
OPERATING LOSS	2	<u>(5,477,094)</u>	<u>(1,263,454)</u>
Financial income	6	9,573	1,171
Financial expenses	7	(129,311)	(36,772)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		<u>(5,596,832)</u>	<u>(1,299,055)</u>
Tax on loss on ordinary activities	8	-	-
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION		<u>(5,596,832)</u>	<u>(1,299,055)</u>
BASIC AND DILUTED EARNINGS PER SHARE (2006: restated)			
	Note		
Loss per share	9	<u>£(4.49)</u>	<u>£(1.96)</u>

The notes on pages 20 to 38 form part of these financial statements

STATEMENT OF CHANGES IN EQUITY FOR THE 12 MONTHS ENDED 30 SEPTEMBER 2007

GROUP	Share Capital £	Share Premium £	Other Reserves £	Retained Earnings £	Total Equity £
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	50,000	-	-	(1,299,055)	(1,249,055)
Loss for the 12 months	-	-	-	(5,596,832)	(5,596,832)
Issue of ordinary shares (Note 19)	163,362	9,186,106	-	-	9,349,468
Fair value charge for shares issued at par (Note 2)	-	-	-	4,440,323	4,440,323
Employee share options charge for the period (Note 18)	-	-	3,688	-	3,688
Currency difference on translation of foreign operations	-	-	-	240,246	240,246
Total equity at 30 September 2007	213,362	9,186,106	3,688	(2,215,318)	7,187,838
COMPANY	Share Capital £	Share Premium £	Other Reserves £	Retained Earnings £	Total Equity £
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	50,000	-	-	(1,299,055)	(1,249,055)
Loss for the 12 months	-	-	-	(5,583,956)	(5,583,956)
Issue of ordinary shares (Note 19)	163,362	9,186,106	-	-	9,349,468
Fair value charge for shares issued at par (Note 2)	-	-	-	4,440,323	4,440,323
Employee share options charge for the period (Note 18)	-	-	3,688	-	3,688
Total equity at 30 September 2007	213,362	9,186,106	3,688	(2,442,688)	6,960,468

The notes on pages 20 to 38 form part of these financial statements

BALANCE SHEET AS AT 30 SEPTEMBER 2007

	Note	GROUP		COMPANY	
		2007 £	2006 £	2007 £	2006 £
NON-CURRENT ASSETS					
Investments in subsidiaries	10	-	-	5,080,460	-
Goodwill	11	4,614,030	-	-	-
Other intangible assets	12	1,876,308	3	3	3
Property, plant and equipment	13	8,775	3,415	2,306	3,415
		<u>6,499,113</u>	<u>3,418</u>	<u>5,082,769</u>	<u>3,418</u>
CURRENT ASSETS					
Inventories	14	56,487	65,904	56,487	65,904
Trade and other receivables	15	193,513	24,864	317,713	24,864
Cash deposits used as security for loan notes	17	2,000,000	-	2,000,000	-
Cash and cash equivalents	1	2,953,040	4,974	2,842,789	4,974
		<u>5,203,040</u>	<u>95,742</u>	<u>5,216,989</u>	<u>95,742</u>
CURRENT LIABILITIES					
Short term borrowings	16	-	(660,000)	-	(660,000)
Current portion of long term borrowings	16	-	(178,789)	-	(178,789)
Trade and other payables	16	(1,380,627)	(151,536)	(800,588)	(151,536)
		<u>3,822,413</u>	<u>(894,583)</u>	<u>4,416,401</u>	<u>(894,583)</u>
NET CURRENT ASSETS / (LIABILITIES)		<u>3,822,413</u>	<u>(894,583)</u>	<u>4,416,401</u>	<u>(894,583)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>10,321,526</u>	<u>(891,165)</u>	<u>9,499,170</u>	<u>(891,165)</u>
NON-CURRENT LIABILITIES					
Deferred income tax liability	8	(594,986)	-	-	-
Long term borrowings	17	(2,538,702)	(357,890)	(2,538,702)	(357,890)
		<u>7,187,838</u>	<u>(1,249,055)</u>	<u>6,960,468</u>	<u>(1,249,055)</u>
NET ASSETS / (LIABILITIES)		<u>7,187,838</u>	<u>(1,249,055)</u>	<u>6,960,468</u>	<u>(1,249,055)</u>
EQUITY					
Share capital	19	213,362	50,000	213,362	50,000
Share premium	19	9,186,106	-	9,186,106	-
Other reserves	18	3,688	-	3,688	-
Retained earnings		(2,215,318)	(1,299,055)	(2,442,688)	(1,299,055)
TOTAL EQUITY		<u>7,187,838</u>	<u>(1,249,055)</u>	<u>6,960,468</u>	<u>(1,249,055)</u>

The financial statements were approved and authorised for issue by the Board and were signed on its behalf on 6 December 2007

Justin Martin
Director

The notes on pages 20 to 38 form part of these financial statements

CONSOLIDATED CASH FLOW STATEMENT FOR THE 12 MONTHS ENDED 30 SEPTEMBER 2007

	Note	12 months ended 30 September 2007 £	8 months ended 30 September 2006 £
Cash flows from operating activities			
Cash used in operations	21	(543,225)	(719,410)
Interest paid		(129,311)	(93)
Interest received		9,573	1,171
Net cash used in operating activities		<u>(662,963)</u>	<u>(718,332)</u>
Cash flows from investing activities			
Acquisition of subsidiary, net of cash acquired	10	(313,460)	-
Cash acquired with subsidiary	10	70	-
Purchases of property, plant and equipment	13	-	(3,714)
Proceeds from sale of equipment	13	400	-
Purchases of intangible assets	12	-	(482,980)
Net cash used in investing activities		<u>(312,990)</u>	<u>(486,694)</u>
Cash flows from financing activities			
Proceeds from borrowings		538,702	1,160,000
Repayment of borrowings		(536,679)	-
Proceeds from issue of ordinary shares	19	4,544,852	50,000
Share issue costs paid	19	(622,384)	-
Net cash raised by financing activities		<u>3,924,491</u>	<u>1,210,000</u>
Net increase in cash and cash equivalents		2,948,538	4,974
Cash and cash equivalents at beginning of period		4,974	-
Exchange losses on cash and cash equivalents		(472)	-
Cash and cash equivalents at end of the period		<u>2,953,040</u>	<u>4,974</u>

The notes on pages 20 to 38 form part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS FOR THE 12 MONTHS ENDED 30 SEPTEMBER 2007

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 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 Group 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.

The Company has elected to take the exemption under Section 230 of the Companies Act 1985 to not present the parent company income statement. The amount of the loss for the 12 months, after taxation, accounted for within the parent company income statement amounted to £5,583,956 (8 months to 30 September 2006: £1,299,055 loss).

1.2 Foreign currency translation

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Sterling, which is the Company's functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except where deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transaction); and
- all resulting changes are recognised as a separate component of equity.

NOTES TO THE FINANCIAL STATEMENTS FOR THE 12 MONTHS ENDED 30 SEPTEMBER 2007 (Continued)

1.3 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.

1.4 Business Combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair value at the acquisition date, except for non-current assets that are classified as held for sale in accordance with IFRS 5 *Non Current Assets Held for Sale and Discontinued Operations*, which are recognised and measured at fair value less costs to sell.

1.5 Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of its subsidiary at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill which is recognised as an asset is reviewed for impairment at least annually. Any impairment is recognised immediately in the profit and loss and is not subsequently reversed.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of a cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of its profit and loss on disposal.

1.6 Intangible assets

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

- VECO® process (trade secret) – 15 years

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE 12 MONTHS ENDED 30 SEPTEMBER 2007 (Continued)

1.7 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 asset 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

1.8 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.

1.9 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.

1.10 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.

1.11 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE 12 MONTHS ENDED 30 SEPTEMBER 2007 (Continued)

1.12 Financial Instruments

Financial assets and financial liabilities are recognised in the Group's balance sheet when the Group 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 1.14 and 1.15 below.

Cash and cash equivalents

See 1.10 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 Group's accounting policy for borrowing costs (see above).

Equity instruments

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

1.13 Interest Expense

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

1.14 Trade Receivables

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

1.15 Trade Payables

Trade payables are stated at their nominal value.

NOTES TO THE FINANCIAL STATEMENTS FOR THE 12 MONTHS ENDED 30 SEPTEMBER 2007 (Continued)

1.16 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.

1.17 New IFRS standards adopted during 2007

No new IFRS standards were adopted during 2007.

1.18 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 these financial statements 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 October 2007.

IAS 23 (Borrowing Costs) was amended and 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 2009. The application of IAS 23 revised in these financial statements would not have had a significant impact on the results of the Group. The Company plans to adopt the standard on 1 October 2009.

1.19 Share-Based Payments

The Group has applied the requirements of IFRS 2 *Share-based Payments*.

The Group issues equity-settled and cash-settled share based payments to certain employees. Equity-settled share based payments are measured at fair value at the date of the grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

A liability equal to the portion of goods or services received is recognised at the current fair value determined at each balance sheet date for cash-settled, share-based payments.

1.20 Investments in subsidiaries

Investments in subsidiaries are stated at cost less provision for impairment, if any.

NOTES TO THE FINANCIAL STATEMENTS FOR THE 12 MONTHS ENDED 30 SEPTEMBER 2007 (Continued)

2. OPERATING LOSS

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

	12 months ended 30 September 2007 £	8 months ended 30 September 2006 £
Net foreign exchange (gains)	(706)	-
Depreciation of tangible fixed assets:	709	299
Amortisation of intangible assets	4,281	-
Exceptional items:		
• Fair value charge for ordinary shares issued at par for directors' and consultants' services in respect of the refinancing, PGI acquisition and Admission	4,440,323	-
• Other costs incurred in respect of refinancing	677,204	-
• Other costs incurred in respect of Admission	26,491	-
• Costs incurred in respect of aborted fundraising	-	286,864
• Impairment of intangible fixed assets	-	482,977
Cost of inventories recognised as an expense	21,853	-
Staff costs (Note 4)	78,321	175,373
	<hr/>	<hr/>

In addition to the "Other costs incurred in respect of Admission" charged to the income statement a further £622,384 was charged to the share premium account (Note 19).

The analysis of auditors' remuneration is as follows:

Fees payable to the Company's auditors for the audit of the Company's annual accounts	25,000	5,000
	<hr/>	<hr/>
<i>Total audit fees</i>	25,000	5,000
	<hr/>	<hr/>
Fees payable to the Company's auditors for other services to the Group		
- Tax services	5,000	-
- Corporate finance services related to Admission and aborted fundraising	170,000	78,419
	<hr/>	<hr/>
<i>Total non audit fees</i>	175,000	78,419
	<hr/>	<hr/>

NOTES TO THE FINANCIAL STATEMENTS FOR THE 12 MONTHS ENDED 30 SEPTEMBER 2007 (Continued)

3. SEGMENTAL REPORTING

The turnover assets and operating expenses by geographical location are as follows:

	12 months ended 30 September 2007			8 months ended 30 September 2006		
	Turnover £	Operating expenses £	Net assets/ (liabilities) £	Turnover £	Operating expenses £	Net assets/ (liabilities) £
United Kingdom	36,400	5,481,842	1,729,302	-	1,080,840	(1,314,959)
New Zealand	-	9,799	5,458,536	-	182,614	65,904
	<u>36,400</u>	<u>5,491,641</u>	<u>7,187,838</u>	<u>-</u>	<u>1,263,454</u>	<u>(1,249,055)</u>

4. STAFF COSTS

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

	12 months ended 30 September 2007 £	8 months ended 30 September 2006 £
Wages and salaries	69,315	159,553
Social security costs	9,006	15,820
	<u>78,321</u>	<u>175,373</u>

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

	No.	No.
Administration and sales	<u>4</u>	<u>10</u>

5. DIRECTORS' REMUNERATION

	12 months ended 30 September 2007 £	8 months ended 30 September 2006 £
Emoluments paid to directors	12,579	12,423
Sums paid to companies controlled by the directors	228,586	-
	<u>241,165</u>	<u>12,423</u>

Of the total directors' remuneration, £23,641 was payable to Kevin Fraser or companies controlled by Kevin Fraser, and £216,077 was payable to a company controlled by Roy Tilleard and Justin Martin. Amounts were also payable to Peter McArthur (£214) and Peter Hammonds (£1,233).

NOTES TO THE FINANCIAL STATEMENTS FOR THE 12 MONTHS ENDED 30 SEPTEMBER 2007 (Continued)

5. DIRECTORS' REMUNERATION (Continued)

Of the "Sums paid to companies controlled by the directors" £44,506 has been charged to the income statement and the remainder capitalised within the Cost of investment in PGI (£73,632), Cost of new loans (£26,297) and charged to the share premium account (£84,151).

In addition to the above, as set out in Note 19, 4,267,000 ordinary shares were issued to Fox Capital Limited, a company controlled by two of the Company's directors, at 1p each. This has resulted in a charge to the income statement of £4,224,330.

The Company does not provide the directors with any pension arrangements.

No share options were exercised by the directors in the period. Details of shares and share options held by the directors are detailed in the Report of the Directors and Note 18 respectively.

Details of the directors' service agreements are provided in the Report of the Remuneration Committee on page 8 of the Annual Report.

6. FINANCIAL INCOME

	12 months ended 30 September 2007 £	8 months ended 30 September 2006 £
Bank interest receivable	9,573	1,171
	<hr/>	<hr/>

7. FINANCIAL EXPENSES

	12 months ended 30 September 2007 £	8 months ended 30 September 2006 £
Interest on bank loans and overdrafts	2,526	93
Interest on other loans	120,062	36,679
Other interest payable	6,723	-
	<hr/>	<hr/>
	129,311	36,772
	<hr/>	<hr/>

8. TAXATION

Factors affecting tax charge for the 12 months

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

Factors that may affect future tax charges

The Group has unutilised tax losses of approximately £1,587,000 (2006: £732,000) available to carry forward against future trading profits of the Group, of which £1,571,000 (2006: £732,000) are in respect of UK activities and £16,000 (2006: £Nil) are in respect of overseas activities. No deferred income tax asset has been recognised in these financial statements for these tax losses due to the early stage operations of the Group. The Group recognised a deferred income tax liability of £594,986 on the acquisition of PGI (Note 10).

NOTES TO THE FINANCIAL STATEMENTS FOR THE 12 MONTHS ENDED 30 SEPTEMBER 2007 (Continued)

9. EARNINGS 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 £5,596,832 (2006: £1,299,055) by 1,245,661 (2006: 663,825) ordinary shares, the weighted average number of ordinary shares in issue during the period. The 50,000 ordinary shares in issue at 30 September 2006 were subdivided into 663,815 ordinary shares and 4,336,175 deferred shares on 12 September 2007 and the 2006 loss per share has been restated to reflect this.

The basic and diluted loss per share would be £1.00 (2006: £0.26) if it had been calculated by using the weighted average number of ordinary and deferred shares in issue during the period of 5,581,836 (2006: 5,000,000).

10. ACQUISITION OF SUBSIDIARY

On 18 September 2007, the Company acquired 100 per cent of the issued share capital of PGI, a company incorporated in New Zealand, for consideration of £4.767 million satisfied by the issue of 4.767 million ordinary shares. The total consideration including attributable costs was £5,080,460 which represents the Company's investment in PGI as at 30 September 2007. PGI holds the intellectual property of the VECO® process and manufactures VECOwood®. This transaction has been accounted for by the purchase method of accounting.

	Book value	Fair value
	£	£
Net assets acquired		
Property, plant and equipment	6,206	6,206
Trade and other receivables	4,431	4,431
Cash and cash equivalents	70	70
Trade and other payables	(61,793)	(61,793)
Long term borrowings	(504,328)	(504,328)
Intangible assets (Note 12)	1,226	1,804,213
	(554,188)	1,248,799
Deferred income tax liability arising on fair value adjustment		(594,986)
Goodwill (Note 11)		4,426,647
Total consideration		5,080,460
Satisfied by:		
Kurawood shares (Note 19)		4,767,000
Directly attributable costs		313,460
		5,080,460
Net cash outflow arising on acquisition		
Directly attributable costs		313,460
Cash and cash equivalents acquired		(70)
		313,390
		313,390

NOTES TO THE FINANCIAL STATEMENTS FOR THE 12 MONTHS ENDED 30 SEPTEMBER 2007 (Continued)

10. ACQUISITION OF SUBSIDIARY (Continued)

The goodwill arising on the acquisition of PGI is attributable to the anticipated profitability from the distribution of the Group's products in new markets and the anticipated future operating synergies from the combination.

PGI contributed £Nil revenue and £8,595 to the Group's loss before tax for the period between the date of acquisition and the balance sheet date.

Due to PGI not actively trading in the year, if the acquisition of PGI had been completed on the first day of the financial year, there would have been no material impact on Group revenues for the period or the Group loss attributable to equity holders of the parent company.

11. GOODWILL

CARRIED AT COST	£
At 1 October 2006	-
Recognised on acquisition of a subsidiary (Note 10)	4,426,647
Translation difference	187,383
At 30 September 2007	<u>4,614,030</u>

The Group currently operates as a single cash generating unit ("CGU"). Goodwill has therefore not been allocated to a separate CGU.

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

12. OTHER INTANGIBLE ASSETS

GROUP	VECO® process - Trade Secret £	Trade marks £	Design £	Customer lists £	Brand and copyright £	Total £
Cost						
At 1 October 2006	-	-	415,880	25,000	42,100	482,980
Acquired with subsidiary (Note 10)	1,802,987	1,226	-	-	-	1,804,213
Translation difference	76,322	51	-	-	-	76,373
At 30 September 2007	<u>1,879,309</u>	<u>1,277</u>	<u>415,880</u>	<u>25,000</u>	<u>42,100</u>	<u>2,363,566</u>
Amortisation and impairment						
At 1 October 2006	-	-	415,879	24,999	42,099	482,977
Amortisation	4,281	-	-	-	-	4,281
At 30 September 2007	<u>4,281</u>	<u>-</u>	<u>415,879</u>	<u>24,999</u>	<u>42,099</u>	<u>487,258</u>
Net book value						
At 30 September 2007	1,875,028	1,277	1	1	1	1,876,308
At 1 October 2006	-	-	1	1	1	3

NOTES TO THE FINANCIAL STATEMENTS FOR THE 12 MONTHS ENDED 30 SEPTEMBER 2007 (Continued)

12. OTHER INTANGIBLE ASSETS (Continued)

The Trade Secret represents the VECO® process which was acquired as part of the PGI acquisition. It is amortised over its expected useful life of 15 years.

On 15 May 2006 the Company acquired the other intangible assets from Tardis Structures Limited 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.

COMPANY	Design £	Customer lists £	Brand and copyright £	Total £
Cost				
At 1 October 2006 and 30 September 2007	415,880	25,000	42,100	482,980
Amortisation and impairment				
At 1 October 2006 and 30 September 2007	415,879	24,999	42,099	482,977
Net book value				
At 1 October 2006 and 30 September 2007	1	1	1	3

13. PROPERTY, PLANT AND EQUIPMENT

GROUP	Leasehold and Office & Computer equipment £	Plant & Machinery & Motor Vehicles £	Total £
Cost			
At 1 October 2006	3,714	-	3,714
Disposals	(510)	-	(510)
Acquired with subsidiary (Note 10)	8,013	6,719	14,732
Translation difference	143	120	263
At 30 September 2007	11,360	6,839	18,199
Accumulated Depreciation			
At 1 October 2006	299	-	299
Charge for the 12 months	709	-	709
On disposals	(110)	-	(110)
Acquired with subsidiary (Note 10)	4,830	3,696	8,526
At 30 September 2007	5,728	3,696	9,424
Net Book Value			
At 30 September 2007	5,632	3,143	8,775
At 1 October 2006	3,415	-	3,415

NOTES TO THE FINANCIAL STATEMENTS FOR THE 12 MONTHS ENDED 30 SEPTEMBER 2007 (Continued)

13. PROPERTY, PLANT AND EQUIPMENT (Continued)

COMPANY	Leasehold and office equipment £	Plant & machinery £	Total £
Cost			
At 1 October 2006	3,714	-	3,714
Disposals	(510)	-	(510)
At 30 September 2007	<u>3,204</u>	<u>-</u>	<u>(3,204)</u>
Accumulated Depreciation			
At 1 October 2006	299	-	299
Charge for the 12 months	709	-	709
On disposals	(110)	-	(110)
At 30 September 2007	<u>898</u>	<u>-</u>	<u>898</u>
Net Book Value			
At 30 September 2007	<u>2306</u>	<u>-</u>	<u>2,306</u>
At 1 October 2006	<u>3,415</u>	<u>-</u>	<u>3,415</u>

14. INVENTORIES

	GROUP		COMPANY	
	2007 £	2006 £	2007 £	2006 £
Finished goods and goods for resale	<u>56,487</u>	<u>65,904</u>	<u>56,487</u>	<u>65,904</u>

15. TRADE AND OTHER RECEIVABLES

	GROUP		COMPANY	
	2007 £	2006 £	2007 £	2006 £
Trade receivables	5,461	-	-	-
Other receivables	126,708	24,864	126,708	24,864
Prepayments and accrued income	61,344	-	40,299	-
Amounts due from subsidiary	-	-	150,706	-
	<u>193,513</u>	<u>24,864</u>	<u>317,713</u>	<u>24,864</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE 12 MONTHS ENDED 30 SEPTEMBER 2007 (Continued)

16. CURRENT LIABILITIES

Amounts falling due within one year

	GROUP		COMPANY	
	2007 £	2006 £	2007 £	2006 £
Short term borrowings	-	660,000	-	660,000
Current portion of long term borrowings	-	178,789	-	178,789
Trade payables	541,604	85,852	489,701	85,852
Social security and other taxes	61,606	38,695	61,606	38,695
Other payables	746,753	19,249	218,617	19,249
Accruals and deferred income	30,664	7,740	30,664	7,740
Trade and other payables	<u>1,380,627</u>	<u>151,536</u>	<u>800,588</u>	<u>151,536</u>
	<u>1,380,627</u>	<u>990,325</u>	<u>800,588</u>	<u>990,325</u>

Short term borrowings in the prior year wholly represented monies owed to third party holders of subordinated loans. On or before 12 September 2007, all holders of the subordinated loans entered into a Conversion Agreement with the Company. Under the terms of the Conversion Agreement, upon admission of the Company to AIM on 18 September 2007, all holders of the subordinated loans agreed to the cancellation of their loans in exchange for ordinary shares in the Company.

The £178,789 current portion of long term borrowings above, and other loans of £357,890 recorded in Note 17, in the prior year wholly relate to a loan from General Capital Venture Finance Limited ("General Capital"). On or before 12 September 2007, General Capital entered into a Loan Settlement Agreement with the Company. Under the terms of the Loan Settlement Agreement, the Company paid General Capital £690,000 in settlement of all amounts due to General Capital in respect of principal and interest on the loan.

17. LONG TERM BORROWINGS

	GROUP		COMPANY	
	2007 £	2006 £	2007 £	2006 £
Bank loans	1,964,351	-	1,964,351	-
Other loans	574,351	357,890	574,351	357,890
	<u>2,538,702</u>	<u>357,890</u>	<u>2,538,702</u>	<u>357,890</u>

Bank loans wholly represent a five year £2 million treasury loan facility with Barclays Private Clients International Limited ("Barclays"). The facility is granted on an interest only basis for a period of 1 year from the date of drawdown. Interest will accrue at a margin of 0.25% and be debited to the Company's current account. The loan will be repaid by annual capital repayments of £500,000 payable on the second, third, fourth and fifth anniversary of the date of drawdown. The Company must maintain a cash deposit with Barclays of at least £2 million until the loan is repaid in full.

NOTES TO THE FINANCIAL STATEMENTS FOR THE 12 MONTHS ENDED 30 SEPTEMBER 2007 (Continued)

17. LONG TERM BORROWINGS (Continued)

Other loans in the current year wholly represent monies owed to General Capital under the terms of a Vaporisation Agreement that General Capital entered into with the Company on or before 12 September 2007. Under the terms of the Vaporisation Agreement, the Company purchased certain previously issued warrants from General Capital for £600,000 that was satisfied by the issue of a loan note by the Company to General Capital. The loan note is repayable on 12 September 2011 or at the Company's option on one month's notice. Interest is payable on the loan note from the second anniversary of its issue at the rate of 6% per annum and the loan is unsecured.

18. SHARE-BASED PAYMENTS

Equity-settled share option scheme

The Company has issued share options to 2 employees of the group. Options are exercisable at the exercise price of £1 as specified in the Option Agreement. The vesting period is 2 years. If the options remain unexercised after a period of 10 years from the date of grant, the options expire. Options are forfeited if the employees leave the Group before the options vest.

Details of the share options outstanding during the year are as follows:

	2007	
	Number of share options	Weighted average exercise price (£)
Outstanding at beginning of period	-	-
Granted during the period	1,000,000	1,000,000
Expired during the period	-	-
	1,000,000	1,000,000
Outstanding at the end of the period	1,000,000	1,000,000

The options outstanding at 30 September 2007 had a weighted average exercise price of £1, and a weighted average remaining contractual life of 10 years. The options were granted on 18 September 2007 when the price per share was £1. The aggregate of the estimated fair values, calculated using the Monte Carlo Simulation model, of the options granted on this date is £0.25 million (2006: £Nil).

The inputs into the Monte Carlo model are as follows:

	2007
Weighted average share price	£1
Weighted average exercise price	£1
Expected volatility	25%
Vesting period	2 years
Life of option	10 years
Risk free rate	5.00%
Expected dividend yield	0.00%

NOTES TO THE FINANCIAL STATEMENTS FOR THE 12 MONTHS ENDED 30 SEPTEMBER 2007 (Continued)

18. SHARE-BASED PAYMENTS

Equity-settled share option scheme (Continued)

As the Company was admitted to AIM on 18 September 2007, expected volatility could not be determined by reference to the historical volatility of the Company's share price. Expected volatility was therefore determined with reference to the volatilities of selected quoted companies that were considered comparable to the Company.

The Group recognised total expenses of £3,688 (2006: £Nil) related to equity-settled share-based payment transactions.

In addition as set out in Note 2 the Group recognised an expense of £4,440,323 in relation to other share-based payments.

19. SHARE CAPITAL

Share capital	2007 £	2006 £
Authorised		
26,136,880 ordinary shares of £0.01 each (2006: 50,000 ordinary shares of £1 each)	261,369	50,000
4,336,175 deferred shares of £0.01 each (2006: Nil)	43,362	-
	<hr/> 304,731	<hr/> 50,000
Allotted, called up and fully paid		
17,000,000 ordinary shares of £0.01 each (2006: 50,000 ordinary shares of £1 each)	170,000	50,000
4,336,175 deferred shares of £0.01 each (2006: Nil)	43,362	-
	<hr/> 213,362	<hr/> 50,000

On 12 September 2007, the authorised share capital of the Company was increased from £50,000 to £304,730.55 divided into 26,136,880 ordinary shares of £0.01 each and 4,336,175 deferred shares of £0.01 each by the creation of 25,473,055 ordinary shares of £0.01 each ranking pari passu in all respects with the existing ordinary shares of the Company.

Also on 12 September 2007, all 50,000 ordinary shares of £1 each were subdivided into 663,825 ordinary shares of £0.01 each and 4,336,175 deferred shares of £0.01 each. Ownership of deferred shares does not entitle the holder to any voting rights or a right to any dividend. On the distribution of the assets of the Company upon liquidation a deferred share shall only be entitled to share in the assets of the Company after £1 million per share has been paid on each ordinary share.

NOTES TO THE FINANCIAL STATEMENTS FOR THE 12 MONTHS ENDED 30 SEPTEMBER 2007 (Continued)

19. SHARE CAPITAL (Continued)

On 18 September 2007:

- new investors subscribed for 4,500,000 ordinary shares at £1 each resulting in the creation of share premium of £4,455,000;
- 4,767,000 ordinary shares at £1 each were issued as consideration for the Company's purchase of PGI resulting in the creation of share premium of £4,719,330;
- holders of subordinated loans subscribed for 2,584,000 ordinary shares in exchange for cancellation of subordinated loans totalling £660,000 resulting in the creation of share premium of £634,160;
- 4,267,000 ordinary shares were issued to Fox Capital Limited, a company controlled by two of the Company's directors, at 1p each; and
- other parties subscribed for 218,175 ordinary shares at 1p each.

Directly attributable costs of £622,384 related to the Admission and finance raising were charged to the share premium account resulting in a balance on the account of £9,186,106 at 30 September 2007.

Share warrants

Also on 18 September 2007, share warrants were issued to St Helen's Capital plc (the "St Helen's warrants") and other creditors (the "Creditor warrants").

The St Helen's warrants granted give the holders the right to subscribe for 340,000 ordinary shares exercisable for a period of 3 years following Admission at a price of £1 per ordinary share.

The Creditor warrants granted give the holders the right to subscribe for 79,200 ordinary shares exercisable at any time during the one year period immediately following Admission at a price of £1 per ordinary share.

20. FINANCIAL INSTRUMENTS

The Group'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 Group's operations.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE 12 MONTHS ENDED 30 SEPTEMBER 2007 (Continued)

20. FINANCIAL INSTRUMENTS (Continued)

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 Group provides goods and services on deferred terms. The Group’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 Group’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.

Foreign exchange risk – The Group operates internationally and is exposed to foreign exchange risk arising primarily from the New Zealand Dollar. The Group’s exposure to movements in exchange rates is regularly reviewed.

Financial liabilities

The Group held the following financial liabilities at 30 September:

	2007 £	2006 £
Loans falling due in less than one year	-	838,789
Loans falling due after one year but less than 5 years	2,538,702	357,890
Trade and other payables (due within one year)	1,380,627	151,536
	<u>3,919,329</u>	<u>1,348,215</u>

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

	2007		2006	
	Fixed rate financial liabilities £	Variable rate financial liabilities £	Fixed rate financial liabilities £	Financial liabilities on which no interest is paid £
Sterling	574,351	1,964,351	536,679	660,000
	<u>574,351</u>	<u>1,964,351</u>	<u>536,679</u>	<u>660,000</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE 12 MONTHS ENDED 30 SEPTEMBER 2007 (Continued)

20. FINANCIAL INSTRUMENTS (Continued)

Fixed rate financial liabilities

Interest rate profile at 30 September 2007:

	Weighted average interest rate %	
	2007	2006
Sterling	2.4%	19.6%

Currency exposures

At 30 September 2007 and 2006 the Company had no material currency exposures relating to trading activities.

21. CASH USED IN OPERATIONS

	12 months ended 30 September 2007 £	8 months ended 30 September 2006 £
Loss on ordinary activities before tax	(5,596,832)	(1,299,055)
Depreciation of property, plant and equipment (Note 13)	709	299
Finance income (Note 6)	(9,573)	(1,171)
Finance charge (Note 7)	129,311	36,772
Share option charge (Note 18)	3,688	-
Fair value charge on shares issued for directors' and consultants' services at par (Note 2)	4,440,323	-
Amortisation of intangible assets (Note 12)	4,281	-
Impairments of intangible assets	-	482,977
(Increase) / decrease in inventories	9,417	(65,904)
(Increase) / decrease in receivables	(164,034)	(24,864)
Increase / (decrease) in payables	639,485	151,536
Cash used in operations	(543,225)	(719,410)

NOTES TO THE FINANCIAL STATEMENTS FOR THE 12 MONTHS ENDED 30 SEPTEMBER 2007 (Continued)

22. OPERATING LEASE COMMITMENTS

The Group leases a site in New Zealand under non-cancellable operating leases. The future aggregate minimum lease payments under these leases are as follows:

	GROUP		COMPANY	
	2007 £	2006 £	2007 £	2006 £
No later than 1 year	57,269	-	-	-
Later than 1 year and no later than 5 years	211,283	-	-	-
	<u>268,552</u>	<u>-</u>	<u>-</u>	<u>-</u>

The current operating lease expires in December 2007. A new operating lease has been entered into for a period of four years commencing 1 December 2007. The new operating lease has provision for one right of renewal for a further term of four years.

23. RELATED PARTY TRANSACTIONS

During the year, Fox Capital Limited ("Fox"), a company controlled by Roy Tilleard and Justin Martin, invoiced the Company £216,077 (2006: £Nil) for providing the services of Roy Tilleard and Justin Martin as directors.

Included in "Other payables" (Note 16), is £198,712 (2006: £Nil) being an amount owed by the Company to Fox. The amount represents amounts payable to Fox net of amounts owed by Fox for the shares acquired on 18 September 2007.

During the year, Kevin Fraser, a director of the Company, invoiced the Company £12,509 (2006: £Nil) for consultancy services. This amount was outstanding at the year end and included within "Accruals and deferred income" (Note 16).

Included in "Other payables" (Note 16), is £19,905 (2006: £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.