

Company Registration No. 3882653 (England and Wales)

MICROCAP EQUITIES PLC
DIRECTORS' REPORT AND ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2006

MICROCAP EQUITIES PLC

COMPANY INFORMATION

Directors	N Greenstone R. Patel J Holmes	Chairman
Secretary	N Greenstone	
Company number	3882653	
Registered office	42-46 High Street Esher Surrey KT10 9QY	
Auditors	H.W.Fisher & Company Acre House 11-15 William Road London NW1 3ER	
Banker	Royal Bank of Scotland 28 Cavendish Square London W1M 0DB	
Nominated Adviser	John East & Partners Limited 28 Worship Street London EC2A 2AH	
Nominated Broker	John East & Partners Limited 28 Worship Street London EC2A 2AH	
Registrar	Capita IRG Plc Bourne House 34 Beckenham Road Beckenham Kent BR3 4TU	

MICROCAP EQUITIES PLC

CONTENTS

	Page
Chariman's statement	1
Directors' report	2 - 3
Statement of directors' responsibilities	4
Auditors' report	5
Profit and loss account	6
Balance sheet	7
Cash flow statement	8
Notes to the accounts	9 - 14

MICROCAP EQUITIES PLC

CHAIRMAN'S STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2006

I am pleased to report on the results of the company for the year ended 31 December 2006.

The company's operating loss decreased to £92,399 (2005: £183,230). However, after taking into account a provision of £85,000, as a result of a diminution in value of the company's investments, and a non-recurring charge of £296,587, arising from the redemption at a premium of £296,587 nominal of convertible unsecured loan stock 2007 issued during the year at par, the loss on ordinary activities before and after taxation increased to £473,467 (2005: £281,318).

Your directors continue to investigate ways of increasing shareholder value.

N Greenstone

Chairman

Dated: 25 June 2007

MICROCAP EQUITIES PLC

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2006

The directors present their report and accounts for the year ended 31 December 2006.

Principal activities

The principal activity of the company continues to be that of investment.

Results and dividends

The loss for the year after taxation amounted to £473,467.

The directors do not recommend payment of an ordinary dividend.

Directors and their interests

The directors who served during the year were:

	Ordinary shares of 1p each	
	31 December 2006	1 January 2006
N Greenstone	500,000	500,000
R. Patel	477,666	477,666
J Holmes	-	-

	Deferred shares of 24p each	
	31 December 2006	1 January 2006
N Greenstone	-	-
R. Patel	-	-
J Holmes	-	-

On 25 October 2006 J Holmes was appointed as a director.

Taxation status

The company was not a close company within the provisions of the Income and Corporation Taxes Act 1988 and this position has not changed since the end of the financial year.

MICROCAP EQUITIES PLC

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2006

Creditor payment policy

The company's current policy concerning the payment of trade creditors is to:

- a) settle the terms of payment with suppliers when agreeing the terms of each transaction;
- b) ensure that suppliers are made aware of the terms of payment by inclusion of the relevant terms in contracts; and
- c) pay in accordance with the company's contractual and other legal obligations.

Trade creditors at the year end all relate to sundry administrative overheads and disclosure of the number of days' purchases represented by year end creditors is not meaningful, due to the company having insufficient cash resources to pay trade creditors.

Auditors

A resolution proposing the reappointment of H.W.Fisher & Company as auditors will be put to the members at the next Annual General Meeting.

On behalf of the Board

N Greenstone

Director

Dated: 25 June 2007

MICROCAP EQUITIES PLC

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the accounts in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice.

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these accounts, the directors are required to:

- * select suitable accounting policies and then apply them consistently;
- * make judgements and estimates that are reasonable and prudent;
- * prepare the accounts on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the accounts 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.

MICROCAP EQUITIES PLC

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the accounts of Microcap Equities Plc for the year ended 31 December 2006 set out on pages 6 to 14. These accounts have been prepared under the accounting policies set out on page 9.

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

As described on page 2 the company's directors are responsible for the preparation of the accounts in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Our responsibility is to audit the accounts 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 accounts give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the accounts, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the 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 accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, 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 accounts 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 accounts.

Opinion

In our opinion the accounts

- * give a true and fair view in accordance with United Kingdom Generally Accepted Accounting Practice of the state of the company's affairs as at 31 December 2006 and of its loss for the year then ended; and
- * have been properly prepared in accordance with the Companies Act 1985.
- * the information given in the Director's Report is consistent with the accounts

H.W.Fisher & Company

Chartered Accountants
Registered Auditor
Acre House
11-15 William Road
London
NW1 3ER

Dated: 25 June 2007

MICROCAP EQUITIES PLC

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2006

		2006	2005
	Notes	£	£
Administrative expenses		(92,399)	(183,230)
Operating loss	2	(92,399)	(183,230)
Other income	4	718	380
Amounts written off investments	5	(85,000)	(98,468)
Interest payable and similar charges	6	(296,786)	-
Loss on ordinary activities before taxation		(473,467)	(281,318)
Tax on loss on ordinary activities	7	-	-
Loss on ordinary activities after taxation		(473,467)	(281,318)
Accumulated loss brought forward		(4,334,521)	(4,053,203)
Transfer to share premium		296,587	-
Accumulated loss carried forward		(4,511,401)	(4,334,521)
Loss per share			
- Basic	8	£(0.009)	£(0.006)
- Diluted	8	£(0.009)	£(0.006)

The profit and loss account has been prepared on the basis that all operations are continuing operations.

There are no recognised gains and losses other than those passing through the profit and loss account.

MICROCAP EQUITIES PLC

BALANCE SHEET

AS AT 31 DECEMBER 2006

	Notes	2006 £	£	2005 £	£
Fixed assets					
Investments	9		71,282		156,282
Current assets					
Debtors	10	2,559		51,398	
Cash at bank and in hand		176,041		14,900	
		<u>178,600</u>		<u>66,298</u>	
Creditors: amounts falling due within one year	11	<u>(34,908)</u>		<u>(127,313)</u>	
Net current assets/(liabilities)			<u>143,692</u>		<u>(61,015)</u>
Total assets less current liabilities			<u>214,974</u>		<u>95,267</u>
Capital and reserves					
Called up share capital	12	1,709,545		1,116,371	
Share premium account	13	3,016,830		3,313,417	
Profit and loss account		<u>(4,511,401)</u>		<u>(4,334,521)</u>	
Shareholders' funds - all equity interests	14		<u>214,974</u>		<u>95,267</u>

The accounts were approved by the Board on 25 June 2007

N Greenstone
Director

MICROCAP EQUITIES PLC

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2006

	Notes	2006 £	2005 £
Net cash outflow from operating activities	15	(145,965)	(328,735)
Returns on investments and servicing of finance			
Interest received		718	380
Interest paid		(199)	-
		<hr/>	<hr/>
Net cash inflow from returns on investments and servicing of finance		519	380
Capital expenditure and financial investment			
Receipts from sales of investments		-	343,608
		<hr/>	<hr/>
Net cash inflow from capital expenditure and financial investment		-	343,608
		<hr/>	<hr/>
Net cash (outflow)/inflow before financing		(145,446)	15,253
Financing			
Issue of ordinary share capital		296,587	-
Cost of share issue		-	(7,710)
New debenture loan		306,587	-
Repurchase of debenture loan		(296,587)	-
		<hr/>	<hr/>
Net cash inflow/(outflow) from financing		306,587	(7,710)
		<hr/>	<hr/>
Increase in cash	16	<u>161,141</u>	<u>7,543</u>

MICROCAP EQUITIES PLC

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2006

1 Accounting policies

1.1 Basis of preparation

The accounts have been prepared under the historical cost convention and on a going concern basis, the validity of which is dependent on the company being able to complete the restructuring of its finances and on the continued support of the company by its larger creditors.

The accounts have been prepared in accordance with applicable accounting standards.

1.2 Investments

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

1.3 Deferred taxation

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the accounts. Deferred tax is not provided on timing differences arising from the revaluation of fixed assets where there is no commitment to sell the assets. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

2 Operating loss	2006	2005
	£	£
Operating loss is stated after charging:		
Auditors' remuneration	10,000	8,825
	<u> </u>	<u> </u>
3 Directors' emoluments	2006	2005
	£	£
Aggregate emoluments	15,000	15,833
	<u> </u>	<u> </u>
4 Other income	2006	2005
	£	£
Interest receivable and similar income	718	380
	<u> </u>	<u> </u>
5 Amounts written off investments	2006	2005
	£	£
Amounts written off fixed asset investments:		
- permanent diminution in value	85,000	98,468
	<u> </u>	<u> </u>

MICROCAP EQUITIES PLC

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2006

6	Interest payable and similar charges	2006	2005
		£	£
	Interest payable on:		
	Bank loans and overdrafts	199	-
	Premium on redemption of loan notes	296,587	-
		<u>296,786</u>	<u>-</u>
		<u><u>296,786</u></u>	<u><u>-</u></u>
7	Tax on loss on ordinary activities	2006	2005
		£	£
	Current tax		
	<u>UK corporation tax</u>		
	Current tax on income for the period	-	-
		<u>-</u>	<u>-</u>
	Factors affecting the tax charge for the year		
	Loss on ordinary activities before taxation	(473,467)	(281,318)
		<u>(473,467)</u>	<u>(281,318)</u>
	Loss on ordinary activities before taxation multiplied by standard rate of UK corporation tax of 30.00% (2005: 30.00%)	(142,040)	(84,395)
	Effects of:		
	Expenses not deductible for tax purposes	33,466	60,233
	Movement in tax losses	108,574	24,162
		<u>142,040</u>	<u>84,395</u>
	Current tax charge	-	-
		<u>-</u>	<u>-</u>

As at 31 December 2006, a deferred tax asset of £401,626 (2005: £288,093) existed due to unrelieved management expenses and interest of £1,388,755 (2005: £960,311) at a rate of 30%. No provision has been made for this deferred tax asset, due to the uncertainty over the availability of future trading profits to offset against these losses.

8 Loss per share

The calculation of the basic loss per share is based on the loss on ordinary activities after taxation of £473,467 (2005: £281,318 and on the weighted average number of 54,400,540 (2005: 47,623,600) ordinary shares in issue during the year.

MICROCAP EQUITIES PLC

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2006

9 Investments

	Unlisted investments £	Listed & quoted investments £	Total £
Cost			
At 1 January 2006 & at 31 December 2006	<u>1,476,664</u>	<u>465,500</u>	<u>1,942,164</u>
Provisions for diminution in value			
At 1 January 2006	1,376,664	409,218	1,785,882
Permanent diminution in value	<u>60,000</u>	<u>25,000</u>	<u>85,000</u>
At 31 December 2006	<u>1,436,664</u>	<u>434,218</u>	<u>1,870,882</u>
Net book value			
At 31 December 2006	<u>40,000</u>	<u>31,282</u>	<u>71,282</u>
At 31 December 2005	<u>100,000</u>	<u>56,282</u>	<u>156,282</u>
Market value of listed and quoted investments at 31 December 2006		<u>33,200</u>	

10 Debtors

	2006 £	2005 £
Trade debtors	-	3,462
Other debtors	1,309	42,722
Prepayments and accrued income	1,250	5,214
	<u>2,559</u>	<u>51,398</u>

MICROCAP EQUITIES PLC

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2006

11 Creditors: amounts falling due within one year	2006	2005
	£	£
Trade creditors	8,155	111,588
Convertible unsecured loan stock	10,000	-
Taxes and social security costs	187	-
Other creditors	625	-
Accruals and deferred income	15,941	15,725
	<u>34,908</u>	<u>127,313</u>

On 24 January 2006 the company created a £1,500,000 convertible unsecured loan stock instrument. During the year applications were received for amounts totalling £306,587. The stock is redeemable at a premium of £1.00 for each £1.00 nominal of the stock. See note 12 for redemption details in the year.

12 Share capital	2006	2005
	as restated	as restated
	£	£
Authorised		
995,986,500 Ordinary shares of 1p each	9,959,865	9,959,865
2,667,229 Deferred shares of 24p each	640,135	640,135
	<u>10,600,000</u>	<u>10,600,000</u>
Allotted, called up and fully paid		
106,941,002 (2005: 47,623,602) Ordinary shares of 1p each	1,069,410	476,236
2,667,229 (2005: 2,667,229) Deferred shares of 24p each	640,135	640,135
	<u>1,709,545</u>	<u>1,116,371</u>

The holders of Deferred shares are not entitled to receive notice of or attend general meetings and will not be entitled to vote at general meetings. In addition, they are not entitled to receive any dividend payments from the profits of the group which it may distribute and declare.

The deferred shares confer a right:

- (1) to repayment to their holders of the amounts paid up or credited as paid up on them on a winding up or return of capital or otherwise in proportion to the number of shares held after paying to the holders of the Ordinary shares £10,000 in respect of each such share; and
- (2) to participate in any surplus assets of the company in proportion to the number of such shares held after payment to the holders of Ordinary shares.

On 25 October 2006 £46,587 of loan stock was converted into 9,317,400 Ordinary shares of 1p each. Additionally on 21 November 2006 £100,000 nominal of convertible unsecured loan stock was converted into 20,000,000 ordinary shares of 1p each. Furthermore, on 28 November £150,000 of convertibel unsecured loan stock was converted into 30,000,000 ordinary shares of 1p each.

Amounts previously stated for authorised Deferred Ordinary shares were overstated and should have been the same amount as allotted in accordance with the resolution dated 17 April 2003.

MICROCAP EQUITIES PLC

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2006

13 Statement of movements on reserves

	Share premium account	
	£	
Balance at 1 January 2006	3,313,417	
Premium on redemption of loan notes	(296,587)	
Balance at 31 December 2006	3,016,830	

14 Reconciliation of movements in shareholders' funds

	£	£
Loss for the financial year	(473,467)	(281,318)
New share capital subscribed	593,174	(7,710)
Net addition to/(depletion in) shareholders' funds	119,707	(289,028)
Opening shareholders' funds	95,267	384,295
Closing shareholders' funds	214,974	95,267

15 Net cash outflow from operating activities

	2006	2005
	£	£
Reconciliation to operating loss:		
Operating loss	(92,399)	(183,230)
Loss on disposal of investments	-	20,855
Decrease in debtors	48,839	100,989
Decrease in creditors	(102,405)	(267,349)
	(145,965)	(328,735)

16 Reconciliation of net cash flow to movement in net cash

	2006	2005
	£	£
Increase in cash	161,141	7,543
Net cash at 1 January 2006	14,900	7,357
Net cash at 31 December 2006	176,041	14,900

MICROCAP EQUITIES PLC

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2006

17 Analysis of net cash

	At 1 January 2006	Cash flow	At 31 December 2006
	£	£	£
Cash at bank and in hand	14,900	161,141	176,041
	<u>14,900</u>	<u>161,141</u>	<u>176,041</u>

18 Related party transactions

During the year the company was invoiced £3,677 (2005: £11,312) by Berkeley Company Management (UK) Limited, a company in which B Sumner who was the company's secretary until 23 February 2006, is a director, for consultancy services. N Greenstone ceased to be a director of this company during the year. As at 31 December 2006, a balance of £nil (2005: £11,016) remained outstanding in relation to these fees.

19 Post balance sheet events

On 22 January 2007 £10,000 of loan stock was converted into 2,000,000 Ordinary Shares of 1p each.

20 Financial instruments

The company currently holds investments in other companies listed on the Alternative Investment Market of the London Stock Exchange ("AIM") and unquoted companies where the directors consider there is value to be obtained by a prospective float on AIM in the future

The company's other financial instruments comprise cash at bank and various items such as trade debtors and creditors that arise directly from its operations. The main purpose of these instruments is to provide finance for operations. The company has not entered into derivatives transactions and does not trade in financial instruments as a matter of policy. The main future risks arising from the company's financial instruments are interest rate risk and liquidity risk. There is no currency risk as the company trades in Sterling.

Operations to date have been financed through a placing of shares and issue of convertible loan notes, which have largely been converted into shares during the year. It is the Board policy to keep borrowings to a minimum. The company has no long term borrowings.

The company has taken advantage of the exemption in FRS 13 in respect of short-term debtors and creditors.

Interest Rate Risk Profile of Financial Assets

The only financial assets (other than short-term debtors) are cash at bank held at variable interest rates. Amounts held in sterling at 31 December 2006 were £176,041.

Interest Rate Risk Profile of Financial Liabilities, excluding Non-debt Current Liabilities.

During the year to 31 December 2006 the company incurred minimal interest charges and there were no borrowings at that date. The directors are of the opinion that further disclosures regarding the interest rate profile under FRS 13 would not be meaningful.

The difference between the book and fair value of financial assets and liabilities as at 31 December 2006 is £nil.