Half-yearly Report

Kiotech International Plc

KIOTECH INTERNATIONAL PLC (AIM: KIO)

(“Kiotech” or the “Company”)

Kiotech International plc, a leader in the manufacturing and marketing of high performance natural feed additives for global agricultural and aquaculture markets with products which improve the health and output of animals, is pleased to announce its interim results for the 6 months to 30 June 2011.

Key points: Financial

32% increase in profit before tax and share-based payments to £1.04m (2010: £0.79m)
12% increase in earnings per share to 4.03 pence per share (2010: 3.61 pence per share)
5 percentage point increase in gross margin to 31% (2010: 26%)
Cash balance of £3.44m at 30 June 2011 (31 December 2010: £3.53m)

Key points: Operational

Integration of Optivite completed with benefits coming through
Investment in 3rd feed additive production line completed doubling production capacity
11% increase in Kiotechagil sales
China subsidiary reaches the significant milestone of breakeven enabling future growth opportunities to be self-financing

Richard Rose, Chairman, commented:

“The Group has delivered a strong performance in the first half of the year and this is continuing. The improvement in our gross margin reflects our focus on our higher value feed additive ranges and close attention to selling prices.

The Group is well positioned to continue its success in the second half of the year and is currently evaluating a number of acquisition opportunities, which could potentially meet our criteria for value creation”•

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KIOTECH INTERNATIONAL plc.

Unaudited interim results for 6 months to 30 June 2011

Chairman’s statement

I am pleased to report that trading in the first half of the year has been most encouraging with profit well ahead of the same period last year.

The Group is focused on supplying high performance natural animal feed additives for global agricultural markets through its strong trading brands Kiotechagil and Optivite. Management have successfully refocused the business on higher margin products and in addition acted quickly to ensure raw material price increases have been passed on through selling prices.

Results

In the six months to 30 June 2011 profit before tax and share-based payments increased by 32% to £1.04m (2010: £0.79m). As a consequence of the strategic focus on higher margin products and markets, like-for-like sales reduced from £11.08m to £9.36m whilst gross margin was maintained at £2.88m (2010: £2.89m) reflecting a significant increase in gross margin percentage from 26% to 31%. Administration costs have fallen by 11% benefiting from acquisition synergies and initiatives.

Our liability for tax has been provided at the current prevailing rates although research and development tax credits are likely to reduce the eventual tax charge and the effective tax rate once the benefit is known with greater certainty. 2010 benefited from favourable adjustments to prior year computations resulting in a first half credit of £0.13m.

Basic earnings per share increased by 12% from 3.61 pence per share to 4.03 pence per share and diluted earnings per share rose from 3.57 pence per share to 3.99 pence per share.

The balance sheet remains strong with good cash generation and the Company ended the period with a cash balance of £3.44m.

Optivite integration

The integration of Optivite, purchased in September 2009, is complete and the Group's focus is now to build on its trading brands within the UK and internationally. Capital investment continues to improve production efficiencies targeted principally at minimising waste whilst increasing throughput; further benefits from investment are likely to be evident in the second half of the year.

The success of the integration process and in particular the consolidation of the production units has recently been acknowledged by FEMAS, the main industry and globally recognised accreditation body.

Operations - International agriculture

The international division, operating under the Optivite and Kiotechagil brands, continued to make progress during the period and managed to maintain margins while addressing significant pressures in the raw material markets by an active pricing policy. Overall, out of 61 countries supplied, there have been particularly strong performances in Argentina, Bulgaria, Chile, Greece, Japan, Malaysia, Philippines and Syria.

At the beginning of the year we completed a re-structuring programme within the export customer service department and the Optivite International sub-division. A key feature of the integration was the closure of our Aldermaston facility and the transfer of the Kiotechagil customer service department to Manton Wood. This consolidation has been a success and steps are underway to combine the back-office processes of the two trading brands in order to provide greater flexibility to facilitate and support the continuing growth of the international division. This development will ensure that we are well placed to continue to provide the most effective and efficient service to our overseas customer base.

The Optivite International brand had a very strong year in 2010 and is now consolidating that growth. In order to increase Optivite's brand presence internationally, with new product launches and entry into new territories, we are recruiting international account managers who have significant feed additive experience, both technically, commercially and globally.

The main focus of the international sales team will continue to be the introduction of new products to our distributors. Kiotechagil has continued the roll out of Neutox, a feed safety product, and pHorce, a high content, low inclusion acidifier along with the introduction of a new enzyme range, Feedzyme. All these products have been well received. Optivite International has also started to make inroads with various new products, such as Red-Lite, a chemical-free insect control product for poultry and grain storage and Optimax, a high strength acidifier, as well as a new improved formulation of our omega 3 product Optomega, which has only been possible due to the investment in the new production line.

In China we have moved away from a direct sales approach in selling feed additives to the large mills to forming strategic alliances within the premix segment. These alliances are beginning to show benefits by accelerating access into the complex buying network of the larger organisations by leveraging the established relationships of our partners. Working through the premix segment is also beneficial to our partners who can now add value to their product by utilising both our feed additive range and also the nutritional expertise of Kiotech.

We are also appointing local distributors to service small to medium sized farmers and end users, which would otherwise be very difficult and costly to reach directly owing to the geographical size of China.

Success in China will not be achieved overnight, it requires persistence and patience. The acceptance of Genex®, an Optivite registered performance enhancing acid and essential oil combination, within a few of the top feed mills in China, demonstrates that our strategy is beginning to show results. The volumes are currently small but as confidence continues to grow, the expectation is that the volumes will increase significantly.

In Brazil, we are now selling our acidifier products to some of the major integrators. Our Brazilian distributor visited the Manton Wood facility in the first half of the year to finalise the distribution strategy and the focus leading into the year-end will be on the implementation of this and we anticipate volumes to grow as our products gain wider use respectively.

Operations - UK agriculture

Following the re-structure of our UK agriculture business, including the exit from Optivite's low margin commodity products, sales have been focused on our higher margin feed additive products. These ranges, manufactured at Manton Wood, have been sold to the major integrators and compounders along with vitamin and mineral premixes to the pig and poultry home-mix segment. The business re-structure has enabled the corporate identity to be positively reinforced within the UK agricultural market and the brand awareness of Optivite within the customer base has strengthened significantly.

The strategy to focus on the more sophisticated, added value, in-house designed ranges, which is our core competence, is now beginning to manifest itself in the results through an increase in profitability despite the drop in sales revenue. Within the integrator and compound feed market, the decision making process is complex and lengthy, involving technicians, nutritionists, finance and operations thus creating a time lag from initiation through to sales.

Further specific market-led opportunities for our products are being developed within the pig sector as concerns relating to disease legislation such as salmonella control continue to increase. Optivite is involved in discussions with industry leading bodies to formulate control programmes that will be set as standards for farmers, incorporating several of the Group's leading antimicrobial brands.

The organic market remains strained owing to the current economic climate and this is reflected in lower consumer uptake. Sales should benefit from the anticipated implementation of further EU legislation in January 2012 requiring sole use of organic raw materials in feed rather than the current 95%. We anticipate this legislation to be a positive driver for Vitrition, our organic feed brand, as we believe many compound feed mills will question their future in the organic feed market. In contrast to some other manufacturers, Vitrition has a dedicated organic feed content, mill and formulations which make it easier for the company to comply with the new legislation.

Vitrition is trading well, strengthening its margins and raising profitability while responding quickly to raw material price rises. This action has managed to abate the well publicised grain price inflation experienced during the first half of 2011.The outlook for Vitrition remains positive with many customer contracts and raw material prices agreed into 2012.

Operations - Aquaculture

Trials of Aquatice® continue with a number of farmers and larger animal health companies in South East Asia; recent trials in the Philippines and China had some encouraging results. We are working closely with the industry in the region and the technology is attracting increasing interest.

We are in the process of moving production of Aquatice® from outsourced manufacture to our Manton Wood site; this will lower costs and increase control and flexibility.

Discussions and collaboration are continuing with some key partners, which we hope will lead to distribution agreements and possibly licensing of the technology.

Outlook

The Group has delivered a strong performance in the first half of the year and this is continuing. The improvement in our gross margin reflects our focus on higher value feed additive ranges and close attention to selling prices.

The Group is well positioned to continue its success in the second half of the year and is currently evaluating a number of acquisition opportunities, which could potentially meet our criteria for value creation"•

Richard S Rose
Chairman
15 September 2011

Unaudited consolidated income statement

For the six months ended 30 June 2011

		Six months to	Six months to	Year ended
		30.06.11	30.06.10	31.12.10
	Note	£000	£000	£000
Revenue	3	9,364	11,082	21,565
Cost of sales		(6,484)	(8,193)	(15,618)
Gross profit		2,880	2,889	5,947
Administrative expenses		(1,909)	(2,135)	(4,225)
Closure and restructuring costs		-	-	(261)
Operating profit		971	754	1,461

Interest receivable (net)		19	23	56
Profit before income tax		990	777	1,517
Income tax expense		(245)	(105)	(229)
Profit for the period from continuing operations		745	672	1,288
Profit for the year attributable to:				
Owners of the parent		734	660	1,282
Non- controlling interest		11	12	6
Profit for the year		745	672	1,288

The consolidated income statement has been prepared on the basis that all operations are continuing operations.

Earnings per share attributable to the equity holders of the company:

			As restated	
Basic earnings per share (pence)	5	4.03	3.61	7.01
Diluted earnings per share (pence)	5	3.99	3.57	6.94

Unaudited consolidated statement of comprehensive income

For the six months ended 30 June 2011

	Six months to	Six months to	Year ended
	30.06.11	30.06.10	31.12.10
	£000	£000	£000
Profit for the period	745	672	1,288
Currency translation differences	5	-	5

Total comprehensive income for the year	750	672	1,293
Attributable to:			
Owners of the parent	739	660	1,287
Non-controlling interest	11	12	6
Total comprehensive income for the year	750	672	1,293

The above consolidated income statement should be read in conjunction with the accompanying notes.

Unaudited consolidated balance sheet

As at 30 June 2011

		As at	As at	As at
		30.06.11	30.06.10	31.12.10
	Note	£000	£000	£000
Non current assets				
Intangible assets	6	7,086	6,829	7,007
Property,plant and equipment		2,862	877	2,619
Deferred income tax assets		289	-	289
		10,237	7,706	9,915
Current assets				

Inventories	1,236	1,217	1,200
Trade and other receivables	4,720	5,255	5,284
Cash and cash equivalents	3,437	4,554	3,531
	9,393	11,026	10,015
Total Assets	19,630	18,732	19,930
Equity and liabilities			
Called up share capital	4,209	4,209	4,209
Share premium account	2,957	2,957	2,957
Special reserve	4,441	4,441	4,441
Other reserves	668	517	613
Retained earnings	3,085	2,105	2,517
	15,360	14,229	14,737
Non-controlling interests	62	57	51
Total equity	15,422	14,286	14,788
Non-current liabilities			
Borrowings	-	13	3
Deferred income tax liabilities	987	498	944
	987	511	947
Current liabilities			
Trade and other payables	3,015	3,420	3,907
Corporation tax	206	515	288
	3,221	3,935	4,195
Total liabilities	4,208	4,446	5,142
Total equity and liabilities	19,630	18,732	19,930

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

Unaudited consolidated statement of changes in equity

For the six months ended 30 June 2011

Attributable to the owners	Share	Share	Special	Other	Retained	Non-controlling	Total
of the parent	Capital	Premium	Reserve	Reserves	Earnings	Interests	Equity
	£000	£000	£000	£000	£000	£000	£000
Balance at 1 January 2010	4,209	2,957	4,441	508	1,445	45	13,605
Profit	-	-	-	-	660	12	672
Total comprehensive income for the year	-	-	-	-	660	12	672
Transactions with owners							
Share based payment adjustments	-	-	-	9	-	-	9
Transactions with owners	-	-	-	9	-	-	9
Balance at 30 June 2010	4,209	2,957	4,441	517	2,105	57	14,286
Profit	-	-	-	-	622	(6)	616
Currency translation differences	-	-	-	5	-	-	5
Total comprehensive income for the year	-	-	-	5	622	(6)	621
Transactions with owners							
Share based payment adjustments	-	-	-	91	-	-	91

Dividends relating to 2009	-	-	-		(210)	-	(210)
Transactions with owners	-	-	-	91	(210)	-	(119)
Balance at 31 December 2010	4,209	2,957	4,441	613	2,517	51	14,788
Profit	-	-	-	-	734	11	745
Currency translation differences	-	-	-	5	-	-	5
Total comprehensive income for the year	-	-	-	5	734	11	750
Transactions with owners							
Purchase of treasury shares	-	-	-	-	(166)	-	(166)
Share based payment adjustments	-	-	-	50	-	-	50
Transactions with owners	-	-	-	50	(166)	-	(116)
Balance at 30 June 2011	4,209	2,957	4,441	668	3,085	62	15,422

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Unaudited consolidated statement of cashflows

For the six months ended 30 June 2011

	Six months to	Six months to	Year ended
	30.06.11	30.06.10	31.12.10
	£000	£000	£000

Cash generated from operating activities	724	(154)	1,211
Income tax paid	(284)	-	(197)
Net cash generated from operating activities	440	(154)	1,014
Cash generated from investing activities			
Payments to acquire intangible fixed assets	(93)	(67)	(256)
Purchases of property, plant and equipment	(291)	(254)	(2,071)
Proceeds from disposal of property, plant and equipment	-	8	10
Interest received	19	23	56
Net cash used in investing activities	(365)	(290)	(2,261)
Cashflows from financing activities			
Purchase of treasury shares	(166)	-	-
Dividend paid to Company's shareholders	-	-	(210)
Repayment of borrowings	(3)	(17)	(27)
Net cash used in financing activities	(169)	(17)	(237)
Net decrease in cash and cash equivalents	(94)	(461)	(1,484)
Cash and cash equivalents at the beginning of the period	3,531	5,015	5,015
Cash and cash equivalents at the end of the period	3,437	4,554	3,531

	Six months to	Six months to	Year ended
	30.06.11	30.06.10	31.12.10
	£000	£000	£000
Cash generated from operations	990	777	1,517
Adjustments for:			

Finance costs	(19)	(23)	(56)
Depreciation and amortisation	61	50	137
Profit on disposal of plant and equipment	-	(8)	(10)
Share based payments	50	9	100
Changes in working capital:			
Inventories	(36)	74	91
Trade and other receivables	564	(344)	(373)
Trade and other payables	(886)	(689)	(195)
Cash generated from operations	724	(154)	1,211

The above consolidated statement of cashflows should be read in conjunction with the accompanying notes.

Notes to the financial statements

1. General information

Kiotech International plc ("the company") and its subsidiaries (together "the group") manufacture and supply high performance natural feed additives for agricultural and aquaculture markets with products to improve the health and output of animals.

The company is traded on the London Stock Exchange Aim market and is incorporated and domiciled in the UK. The address of the registered office is Unit 5 Manton Wood Enterprise Park, Worksop, Nottinghamshire, S80 2RS.

2. Basis of preparation

The consolidated financial statements comprise the accounts of the company and its subsidiaries drawn up to 30 June 2011.

The consolidated financial statements have been prepared on the basis of the accounting policies set out in the group's financial statements for the year ended 31 December 2010, which are available on the company's web site at **www.kiotech.com**.

Of the new standards, amendments and interpretations that are in issue and mandatory for the financial year 31 December 2011, there is no financial impact on these consolidated interim financial statements.

This condensed consolidated interim financial information does not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006. Statutory accounts for the year ended 31 December 2010 were approved by the Board of Directors on 25 May 2011 and delivered to the Registrar of companies. The report of the auditors on those accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under section 498 of the Companies Act 2006.

The consolidated interim financial information for the period ended 30 June 2011 is unaudited.

3. Segment information

All revenues from external customers are derived from the sale of goods in the ordinary course of business to the agricultural and aquaculture markets and are measured in a manner consistent with that in the income statement.

Management has determined the operating segments based on the reports reviewed by the Board that are used to make strategic decisions. The Board considers the business from a geographic perspective.

Management considers adjusted EBITDA, which comprises Earnings before interest, tax, depreciation and amortisation adjusted for share-based payments.

	UK and Eire	International	Total
	£000	£000	£000
Six months to 30 June 2011			
Total segmental revenue	3,248	6,596	9,844
Inter-segment revenue	-	(480)	(480)
Revenue from external customers	3,248	6,116	9,364
Adjusted EBITDA	118	964	1,082
Depreciation and amortisation	(19)	(42)	(61)
Income tax expense	(23)	(222)	(245)

Total assets	9,347	10,283	19,630
Total Liabilities	(1,490)	(2,718)	(4,208)
Six months to 30 June 2010			
Total segmental revenue	5,098	6,076	11,174
Inter-segment revenue	-	(92)	(92)
Revenue from external customers	5,098	5,984	11,082
Adjusted EBITDA	187	626	813
Depreciation and amortisation	(25)	(25)	(50)
Income tax credit/(expense)	52	(157)	(105)
Total assets	4,444	14,288	18,732
Total Liabilities	(2,095)	(2,351)	(4,446)

Year ended 31 December 2010			
Total segmental revenue	9,300	12,686	21,986
Inter-segment revenue	-	(421)	(421)
Revenue from external customers	9,300	12,265	21,565
Adjusted EBITDA	243	1,716	1,959
Depreciation and amortisation	(99)	(38)	(137)
Income tax expense	(68)	(161)	(229)
Total assets	8,624	11,306	19,930
Total Liabilities	(1,614)	(3,528)	(5,142)
A reconciliation of adjusted EBITDA to profit before tax is provided as follows:			

	Six months to	Six months to	Year ended
	30.06.11	30.06.10	31.12.10
	£000	£000	£000
Adjusted EBITDA for reportable segments	1,082	813	1,959
Depreciation, amortisation and impairment provisions	(61)	(50)	(137)
Share-based payment charges	(50)	(9)	(100)
Finance income-net	19	23	56
Closure and re-structuring costs	-	-	(261)
Profit before tax	990	777	1,517

4. Share Capital

The group acquired 235,000 of its own shares through purchases on the London Stock Exchange on 26 January 2011. The total amount to acquire the shares has been deducted from shareholders' equity and the shares are held as treasury shares.

5. Earnings per share	Six months to	Six months to	Year ended
	30.06.11	30.06.10	31.12.10
		(As restated)	
Weighted average number of shares in issue (000's)	18,200	18,300	18,300
Fully diluted weighted average number of shares in issue (000's)	18,379	18,465	18,473
Profit attributable to equity holders of the company (£000's)	734	660	1,282
Basic earnings per share (pence)	4.03	3.61	7.01
Diluted earnings per share (pence)	3.99	3.57	6.94

	Six months to	Six months to	Year ended
	30.06.11	30.06.10	31.12.10
		(As restated)	
	£000	£000	£000
Underlying profit attributable to the equity holders:			
Profit attributable to the equity owners:	734	660	1,282
Closure and restructuring costs (net of tax)	-	-	187
Prior year tax adjustments	-	-	(138)
Basic earnings per share	734	660	1,331
Underlying earnings per share (pence)	4.03	3.61	7.27
Diluted underlying earnings per share (pence)	3.99	3.57	7.20

Earnings per share has been restated to take account of the 1 for 23 ordinary share consolidation, which took place on 1 October 2010.

6. Intangible fixed assets	Goodwill, brands &	Patents &	
	Customer relationships	Developments	Total
	£000	£000	£000
Cost at 1 January 2011	5,821	1,339	7,160
Additions	-	93	93
Cost at 30 June 2011	5,821	1,432	7,253
Amortisation at 1 January 2011	18	135	153
Charge for the period	9	5	14
Amortisation at 30 June 2011	27	140	167
Net book value at 30 June 2011	5,794	1,292	7,086
Net book value at 1 January 2011	5,803	1,204	7,007