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This document constitutes an admission document drawn up in accordance with the AIM Rules and does not comprise a prospectus under the Public Offers of Securities Regulations 1995 (as amended). A copy of this document has not been delivered to the Registrar of Companies in England and Wales.

The Directors of Kiotech International Plc, whose names appear on page 3 of this document, accept responsibility both individually and collectively for the information contained in this document. To the best of the knowledge of the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and makes no omission likely to affect the import of such information.

**Application has been made for the admission of the entire issued and to be issued share capital of the Company to trading on the AIM market of the London Stock Exchange plc (“AIM”). It is expected that dealings in the Ordinary Shares will commence on AIM on 30 June 2005.**

**The rules of AIM are less demanding than those of the Official List of the United Kingdom Listing Authority. AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to larger or more established companies. AIM securities are not admitted to the Official List of the United Kingdom Listing Authority. A prospective investor should be aware of the risks of investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent financial adviser.**

**Neither the United Kingdom Listing Authority nor the London Stock Exchange plc has examined or approved the contents of this document. It is emphasised that no application is being made for admission of these securities to the Official List of the United Kingdom Listing Authority. The Ordinary Shares are not dealt on any other recognised investment exchange and no application has been or is being made for the Ordinary Shares to be admitted to any such exchange. The Ordinary Shares are currently traded on OFEX and will be withdrawn from OFEX immediately prior to Admission.**

## **Kiotech International Plc**

*(Incorporated in England and Wales with registered no. 03345857)*

Placing of 31,657,000 ordinary shares of 1p each at 7p per share  
and

Admission to trading on AIM

Nominated Adviser  
**Grant Thornton Corporate Finance**

Broker  
**J. M. Finn & Co.**

### **Ordinary share capital immediately following the Placing**

<i>Authorised</i>			<i>Issued and Fully Paid</i>	
<i>Number</i>	<i>Nominal Amount</i>		<i>Number</i>	<i>Nominal Amount</i>
2,000,000,000	£20,000,000	ordinary shares of 1p each	66,245,362	£662,453.62

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**Prospective investors should read the whole text and contents of this document and should be aware that an investment in the Company is speculative and involves a degree of risk. In particular, prospective investors’ attention is drawn to the section entitled “Risk Factors” in Part II of this document.**

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## DIRECTORS, SECRETARY AND ADVISERS

<b>Directors</b>	Nicholas Colin Jack Scott ( <i>Executive Chairman</i> ) John Brian Loftus ( <i>Chief Executive</i> ) David Courtenay Gladstone Gyle-Thompson ( <i>Non-Executive Director</i> ) Richard Sidney Rose ( <i>Non-Executive Director</i> )  <i>all of:</i> 26 Adam & Eve Mews London W8 6UJ
<b>Company Secretary and Registered Office</b>	Cargil Management Services Limited 22 Melton Street London NW1 2BW
<b>Nominated Adviser</b>	Grant Thornton Corporate Finance Grant Thornton House Melton Street Euston Square London NW1 2EP
<b>Broker to the Company</b>	J. M. Finn & Co. Salisbury House London Wall London EC2M 5TA
<b>Solicitors to the Company</b>	Lawrence Graham LLP 190 Strand London WC2R 1JN
<b>Solicitors to the Placing</b>	Charles Russell LLP 8-10 New Fetter Lane London EC4A 1RS
<b>Reporting Accountants</b>	Grant Thornton UK LLP Enterprise House 115 Edmund Street Birmingham B3 2HJ
<b>Auditors</b>	Grant Thornton UK LLP Grant Thornton House Melton Street Euston Square London NW1 2EP
<b>Registrars</b>	Share Registrars Limited Craven House West Street Farnham Surrey GU9 7EN

## PLACING STATISTICS

Placing Price	7p
Total number of new Ordinary Shares to be issued pursuant to the Placing	31,657,000
Number of Ordinary Shares in issue following Admission	66,245,362
Percentage of enlarged share capital being placed pursuant to the Placing	47.8%
Proceeds of the Placing (net of estimated expenses)	£1.82 million
Market capitalisation following the Placing at the Placing Price	£4.64 million

## EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Admission and commencement of dealings on AIM of the Ordinary Shares (including the Placing Shares)	30 June 2005
CREST accounts to be credited	30 June 2005
Despatch of definitive share certificates for the Placing Shares by	7 July 2005

## DEFINITIONS

The following definitions and terms apply throughout this document unless the context otherwise requires:

“Act”	the Companies Act 1985 (as amended)
“Admission”	admission of the entire issued share capital of the Company (including the Placing Shares) to trading on AIM becoming effective in accordance with Rule 6 of the AIM Rules
“AIM”	the AIM Market operated by the London Stock Exchange
“AIM Rules”	the rules relating to AIM published by the London Stock Exchange
“CEFAS”	the Centre for Environment, Fisheries & Aquaculture Science, an executive agency of the Government Department for the Environment, Food and Rural Affairs
“CEFAS Agreement”	the licence dated 15 October 2002 between the Company and CEFAS for, <i>inter alia</i> , the exploitation of CEFAS’ research and development into formulations that influence fish behaviour (details of which are set out in paragraph 7 of Part IV of this document)
“Combined Code”	the Combined Code on Corporate Governance and the Code of Best Practice included within the Listing Rules of the UKLA
“the Company” or “Kiotech”	Kiotech International Plc, a company incorporated in England and Wales with registered number 03345857
“CREST”	the system of paperless settlement of trades and the holding of uncertificated shares of which CRESTCo Limited is the operator
“Directors” or “Board”	the directors of the Company as listed on page 3
“Enlarged Issued Share Capital”	the issued share capital of the Company as enlarged by the Placing
“Grant Thornton Corporate Finance”	the corporate finance division of Grant Thornton UK LLP which is authorised and regulated by the Financial Services Authority to carry on investment business
“Group”	the Company together with its subsidiaries, details of which are set out in paragraph 1 of Part IV of this document
“J. M. Finn”	J. M. Finn & Co., which is authorised by the Financial Services Authority to carry on investment business
“Kiotech EMI Scheme”	the Kiotech Enterprise Management Incentive Scheme (details of which are set out in paragraph 4 of Part IV of this document)
“London Stock Exchange”	London Stock Exchange plc
“mmt”	million metric tonnes
“OFEX”	a market operated by PLUS Markets Group plc
“Official List”	the Official List of the UKLA
“Ordinary Shares” or “Shares”	ordinary shares of 1p each in the capital of the Company
“pheromones”	chemical signals secreted or released by organisms which cause a specific response when detected by organisms of the same, or related, species
“Placing Agreement”	the conditional agreement dated 24 June 2005 between the Company, the partners of J. M. Finn and the Directors in connection with the Placing, details of which are set out in paragraph 7 of Part IV of this document
“Placing”	the proposed placing of the Placing Shares at the Placing Price by J. M. Finn as agent for the Company pursuant to the Placing Agreement

<i>“Placing Price”</i>	7 pence per Ordinary Share
<i>“Placing Shares”</i>	31,657,000 new Ordinary Shares to be allotted and issued pursuant to the Placing
<i>“POS Regs”</i>	the Public Offers of Securities Regulations 1995 (as amended)
<i>“Shareholders”</i>	holders of Ordinary Shares
<i>“UKLA”</i>	the UK Listing Authority of the Financial Services Authority, acting in its capacity as the competent authority for the purposes of Part VI of the Financial Services and Markets Act 2000
<i>“Ultrabite”</i>	Ultrabite <sup>®</sup> , a pheromone based sports and leisure fishing product sold by the Company
<i>“UK” or “United Kingdom”</i>	the United Kingdom of Great Britain and Northern Ireland
<i>“US” or “USA”</i>	the United States of America, its territories and possessions, any state of the United States of America and the District of Columbia

## PART I

### INFORMATION ON THE GROUP

#### **Introduction**

Kiotech is a British biotechnology company working in partnership with the UK Government agency, CEFAS (The Centre for Environment, Fisheries & Aquaculture Science). CEFAS is an executive agency of DEFRA (the UK Government's Department for the Environment, Food and Rural Affairs) that specialises in sustainable management of the aquatic environment. This partnership has developed innovative pheromone technology which, the Directors believe, can improve both the production and sustainability of the worldwide commercial fishing and fish farming (aquaculture) markets. The Company's focus is on exploiting the effects of pheromones and developing commercial applications within sports fishing, commercial fishing and aquaculture.

At present, the Company has one product in commercial production, Ultrabite, an attractant which is sold to the sports and leisure fishing markets. However the Directors believe that the commercial fishing and aquaculture markets offer a much more significant commercial opportunity to the Company than the sports and leisure markets and, to that end, are working with CEFAS to develop a range of products aimed at commercial fishing and aquaculture.

The Company, through its arrangements with CEFAS, is conducting tests to assess the efficacy of products it is developing for commercial fishing and aquaculture. Kiotech is undertaking the Placing principally in order to raise additional funds needed to undertake further species specific product development using CEFAS research and development expertise, with a view to their subsequent product commercialisation.

#### *History*

Kiotech was founded in 1996 and commenced trading on OFEX in December 1997. Kiotech's activities were originally centred around expertise in modifying human and animal brain patterns and triggering mood states and behavioural changes through the use of aromas. Developments then progressed into the area of pheromones which is now the focus of the Group.

Kiotech's first commercial sales based on its pheromone technology have been achieved through Ultrabite, a sports fishing product which has achieved sales in over 30 countries, including the US, Australia and Japan since production commenced. Specific Ultrabite formulae have been developed to attract eight distinct species of fish.

In 1998 Kiotech approached CEFAS to test an early version of Ultrabite and to discuss a joint research and development programme which commenced in May 2001 and resulted in 2002 in the entering into of a long term global licence agreement with CEFAS ("the CEFAS Agreement") and the ongoing relationship between CEFAS and the Company. The Directors believe the CEFAS Agreement is crucial to the future development of the Company and that its partnership with CEFAS will add significant value to Kiotech's product development and research programmes.

The CEFAS Agreement gives Kiotech the exclusive right to exploit commercially the results of CEFAS' research and development into certain formulations that influence fish behaviour which are based on pheromones. It also affords Kiotech access to CEFAS's resources for the pursuit of research and product development programmes commissioned by the Company.

#### *CEFAS*

CEFAS is a UK Government agency that specialises in sustainable management of the aquatic environment. CEFAS was established approximately 100 years ago and currently has three coastal laboratories in the UK and over 500 staff, of whom over 300 are professionally qualified scientists.

CEFAS has an international reputation for its expertise in fisheries management, aquaculture and environmental conservation. It has extensive links with international aquatic science organisations and is highly experienced in managing collaborative research and development programmes. For the past 15 years CEFAS has been at the international forefront in the development and application of fish pheromone science.

#### *CEFAS Agreement*

On 15 October 2002, CEFAS formally granted Kiotech a global exclusive licence to commercially exploit the results of CEFAS' research and development into certain pheromone-based formulations that influence fish

behaviour. Further, the CEFAS Agreement affords Kiotech access to CEFAS' resources for the implementation of the Company's research and development programmes funded by the Company.

Kiotech has agreed to pay CEFAS a royalty of 6 per cent. of the Company's net sales of the Ultrabite product and all other products which are exclusively licensed to Kiotech. The licence arrangement is for a period of 20 years from May 2001. Details of the CEFAS Agreement are set out in paragraph 7 of Part IV of this document.

Under these arrangements, CEFAS subscribed, at par, for 1,164,226 Ordinary Shares representing approximately 5 per cent. of Kiotech's ordinary issued share capital at that time. CEFAS is also entitled, subject to certain conditions, to nominate an individual to be appointed to the board of Kiotech although none of the current Directors is a CEFAS appointee.

### **The Science of Pheromones**

Pheromones are chemical signals secreted or released by organisms which cause a specific response when detected by organisms of the same, or a related species. In the case of fish species, research has found that pheromones can trigger heightened responses relating to shoaling, feeding, reproduction and migration behaviour.

Pheromones are released by fish in minute quantities and are detected by other fish using the sense of smell. Pheromones act as chemical signals and a method of communication between fish in an environment where vision is often restricted; pheromones can be effective over long distances. CEFAS has identified and characterised a range of pheromones that are involved in attracting and synchronising reproduction in freshwater and marine fish.

CEFAS has developed and applied to patent a novel pheromone that increases feeding activity in a range of fish. This pheromone is the principal ingredient in Kiotech's product, Ultrabite. CEFAS has also identified and isolated a series of other pheromone-based compounds, which have also proven to attract a wide range of fish species.

### **Existing Product: Ultrabite**

Ultrabite is Kiotech's first pheromone based fishing product and is aimed at the global sports and leisure fishing market. Ultrabite can be used in all forms of sports and leisure fishing — course, sea and game — with differing formulae being sold for different species. Angling as an activity has a high level of participation world-wide, evidenced by the fact that, in the UK alone it is estimated that there are over 3.5 million anglers and in the US there are over 34 million individuals who engage regularly or occasionally in angling.

The Ultrabite product was originally conceived by Kiotech in 1998, following Kiotech's approach to CEFAS in 1998. CEFAS substantially modified the product by adding its own formulations and in Spring 2001 CEFAS agreed to endorse the product's efficacy claims. Ultrabite was launched in September 2001 and is currently manufactured, bottled and packaged by sub-contractors based in Wales.

Ultrabite is a retail product that can currently be purchased by sports and leisure fishermen in either 92ml bottles or packs of four or twenty 5ml vials. The Company has elected to address the global market by appointing a series of regional or territorial wholesale distributors, normally on an exclusive basis.

Kiotech has entered into arrangements for the distribution of Ultrabite with distributors in Europe, the US and Canada, Australia, China and Japan. Ultrabite is stocked in a number of angling stores in the UK and is now being stocked by Walmart in the US.

### **The Market Opportunity**

Although the Directors will seek to further develop, widen and improve the Ultrabite product, the Company's principal strategy is to expand into commercial fishing and aquaculture markets. As the traditional fisheries for shallow water and continental shelf species decline, new alternative fisheries need to be developed within a sustainable and managed framework. This will require the development of new approaches to the selective capture and harvesting of target species in such a way as to reduce and conserve non-target stocks, wild populations of fish and the aquatic ecosystems.

The Food and Agriculture Organisation of the United Nations ("FAO") reports that the world fisheries harvest has reached a plateau at about 90 mmt per annum with a further 40 mmt per annum being produced through aquaculture. At the current level of ocean fishing, predation on the marine ecosystems, and the impact on marine habitats, means that between 60 and 70 per cent. of fish stocks worldwide require urgent action to avoid further declines and to rebuild depleted populations.



### *Aquaculture*

Research has demonstrated that the world-wide demand for seafood and fish products is increasing. FAO projections show that there will be demand for a further 90 mmt per annum of edible seafood by 2040, a magnitude of change which would require a doubling of the current world's seafood supply of edible fish and shellfish. Statistics indicate that 25 per cent. of wild fish stocks are overharvested and another 30 to 40 per cent. are fully exploited. To protect the water resources and ensure sustainable fish stocks, quotas and restrictions on commercial fisheries have been implemented.

With worldwide ocean fishing believed to be at the upper limit of sustainable capacity, the Directors believe that this additional demand can only be satisfied through increased aquaculture. They estimate that world aquacultural production of fish and shellfish would need to triple by 2040 to satisfy this additional demand. However, at the present time the main proteins used within the aquaculture industries are derived from wild fish populations.

The development of the pheromone-based technology has two principal objectives. Firstly, in the short-term the application of pheromone formulations will attempt to increase the feeding activity of farmed fish and therefore the uptake of existing fish-based feeds within the aquaculture industry with the aim of reducing the amount of waste from uneaten feed, which results in significant environmental damage. Secondly, in the longer term the pheromone-based technology will aim to permit the use of more sustainable forms of proteins within feeds, which are not based on fish oils or proteins which it is intended to protect wild fish populations from further depreciation to satisfy the increased demands expected from the aquaculture sector.

### **Kiotech's development of commercial fishing and aquaculture products**

The Company's current research and development programmes have been developed by Kiotech in order to capitalise on the opportunities that the Directors believe that commercial fishing and aquaculture markets offer. These programmes, which will be managed by CEFAS, are aimed at certain sectors of the commercial fishing and aquaculture markets where relatively high value harvests and the existing economics of bait and feed stocks respectively appear to offer commercial opportunity for a product that can deliver efficiencies and savings.

### *Aquaculture*

The Directors believe that take up of food and of necessary medicinal additives are significant issues for an industry where feedstock and survival rates during hatching and grow-out are key factors for commercial success.

The Company's research objective is to improve efficiency of take up of food and additives by applying its pheromone based science to the development of supplements that will induce greater consumption and reduce waste. In an industry characterised by a relatively short growing cycle and pond turn around, increased weight addition and reduced pollution from non-ingested food could improve underlying profitability through reducing the cost of feedstock and reducing the rate of mortality.

The Company believes that it is possible to develop feeding enhancing pheromones for the following species:

#### *Tilapia*

In recent years with the worldwide emergence of aquaculture, increased attention is being focused on tilapia because of its superior culture possibilities. Recently produced FAO figures report that over 1.5 million tonnes of tilapia were raised in 2002 with value of around US\$1.8 billion. These fish are considered to be ideally suited for aquaculture because they reproduce easily, feed efficiently and can tolerate poor water conditions. Tilapia can be successfully grown in brackish water and some species can adapt to full strength sea water. In many developing countries, tilapia are raised in ponds, cages and rice fields but can also be grown in intensive culture systems.

#### *Prawn*

The world wide prawn farming industry produced in excess of 1.6 mmt of farmed prawns in 2003 (valued at approximately US\$10 billion) accounting for 25 per cent. of total global prawn production, and the industry is concentrated in South East Asia, particularly Thailand, Indonesia, Vietnam, and China, and, in the Eastern Hemisphere, in Central and South America notably Ecuador. The largest prawn importing countries are the US and Japan.

### *Cod*

Historically cod has always been caught wild, but with increasing quotas imposed to protect diminishing wild stocks, farmed cod is emerging as the only viable alternative. Norway leads the way in this market and in 2003 Norway sold 2,181 tonnes of farmed cod, an increase of 75 per cent. from the previous year and an increase of 150 per cent. compared with 2001. It is estimated that the farmed cod market in Norway could produce as much as 40,000 tonnes per annum by 2006.

### *Salmon and trout*

The Directors believe that cost savings resulting from the use of pheromone based attractants would be particularly attractive in the salmon and trout fishing markets. World salmon aquaculture production has grown substantially, with Norwegian groups controlling approximately 43 per cent. of the production of farmed Atlantic salmon. A particular environmental issue affecting the salmon farming industry is its current dependency on feedstock consisting of fish product. In this context it has been estimated that as much as three tonnes of fish product can yield as little as one ton of incremental weight on the fish.

### **Commercial Fishing**

#### *Lobster*

Worldwide demand for lobster and crab continues to grow. The current practice is to use dead fish as the enticement, a solution that the Directors consider to be environmentally unsatisfactory. Kiotech's solution is aimed at reducing the unnecessary use of caught fish by substituting for it non-fish pheromone based bait.

#### *Long Line Cod Fishing*

Many traditional trawled cod fisheries are suffering from decreases in yield, and various quota systems are in place to protect the species from over-exploitation in order to give stocks the chance to recover. The European Union is currently debating whether or not to initiate a complete ban on cod fishing in the North Sea and the Irish Sea in an effort to preserve cod stocks in those waters. This follows a report published on 25 October 2002 by the Independent International Council for the Exploration of the Sea (ICES), warning about the growing depletion of a number of fish stocks, in particular cod.

The long line method of commercial fishing remains dependent on the use of live bait, predominantly squid, which is an environmentally unattractive and expensive option. The Company believes that its ability to offer a non-fish pheromone based bait will result in an attractive solution to this problem.

#### ***Pet Feeding***

Fish can become lethargic due to stress, and this lethargy can lead them to refuse food and can result in their death. The Company is now selling into the pet fish feeding market in the US through Aquarium Products Inc. with a view to the Ultrabite product being used to encourage feeding and thereby reducing mortality in pet fish.

### **Current Research and Development Programme**

Pheromone trials involve the development of a species-specific feeding attractant using a limited number of fish of the relevant species to test the efficacy of different formulations on the take-up of feeds. Once the optimum formulation has been established, larger scale hatchery based feeding trials take place in tanks. Subsequent to this, field-based aquaculture facility trials held in ponds, are used to further prove the efficacy of the formulation.

#### *Aquaculture*

Initial trials are currently being undertaken in respect of tilapia and prawn at Mahidol University in Thailand. The final trial report is due for publication during the latter part of 2005.

If successful, following large scale testing in tanks at Mahidol University, both for prawn and tilapia, the Company will look to conduct final confirmatory tests in larger tanks/ponds in partnership with a commercial partner. If the results of these final large scale tests prove positive, the Company will aim to bring a prawn and tilapia aquaculture pheromone product to the market by the middle of 2006.

The Company is also undertaking initial trials in Norway aimed at the aquaculture market. The tests are designed to establish the percentage of growth enhancement in farmed cod which arises from the use of the Company's pheromone science technology. These tests are being undertaken in conjunction with Stolt Sea Farms. The final results of these tests are expected to be available in the autumn of 2005, however, the

Company has received encouraging interim information on the progress of these trials which shows increased growth rates in juvenile cod.

The Board's anticipated future strategy will be to seek potential commercial partners such as fish food companies and to carry out confirmatory trials with such organisations.

#### *Commercial Fishing*

Discussions have taken place with Domstein A/S regarding extensive field based trials. Domstein A/S is a large Norwegian commercial company involved in long line fishing worldwide. Domstein A/S manages a large fleet of ships, and through its joint venture company, Norbait (owned equally by Domstein A/S and O. Mustad & Son), produces reconstituted bait that is manufactured in plants worldwide. The reconstituted bait product is both used by the Domstein A/S fishing fleets and sold to third parties. If those trials lead to positive results the Company intends to develop a pheromone impregnated reconstituted bait product in partnership with Domstein A/S with the aim to achieve significant cost savings against traditional squid based bait products.

#### *Future Research and Development Programmes*

In addition to continuing the development of feeding attractants for prawn, tilapia and cod, the Directors intend to commence research into products for salmon, sea bream, barramundi and sea bass. Each programme is expected to take between 12 and 18 months.

#### **Routes to Market**

The commercialisation of CEFAS' pheromone technology will be the responsibility of Kiotech, though wherever possible Kiotech will seek to utilise the industry contacts and credibility of CEFAS. The Company has entered into a number of local and regional distribution arrangements for Ultrabite. Having successfully established a worldwide distribution network for Ultrabite, the Company expects Ultrabite sales to continue to grow. With respect to the aquaculture and commercial fishing markets, the Directors consider that the appropriate way to penetrate those markets is to work with fish feed manufacturers and distributors. To this end, preliminary relationships are already being established with organisations which the Company considers could be suitable licensees or partners and who could be involved in the field trials and commercialisation of the product.

O. Mustad & Son is Kiotech's chosen distributor of Ultrabite in the US and Canada and its distribution network incorporates over 100 countries worldwide. As well as the sports fishing industry, O. Mustad & Son also operates within the commercial sector and Kiotech is in discussions with them regarding future larger scale commercial business, both in terms of aquaculture and commercial uses for the Company's pheromone science technology.

As referred to above, the Company is working with Domstein A/S to develop a reconstituted bait using Kiotech formulations. It is anticipated that Domstein A/S would be responsible for distributing any products jointly developed with Kiotech.

The Company has also agreed in principle arrangements with Lawrence plc. Pursuant to these arrangements Lawrence plc would conduct field testing, market development and pricing policy studies and related matters. As part of these arrangements it is intended that Lawrence plc would be granted exclusive selling rights for one year to sell any pheromone products developed by the Company for the commercial fishing, aquaculture and pet feeding markets. Lawrence plc would also have the right to nominate a director to the board of the Company. Lawrence plc has a global distribution network in place, and is active worldwide in the field of fish feed additives. These discussions may or may not lead to legally binding agreements.

#### **Current Trading and Prospects**

Ultrabite represents Kiotech's first pheromone based fishing product in the sports fishing market. Since its launch in September 2001, the Company has established a worldwide distribution network for Ultrabite. All sales by the Company have been generated by sales of Ultrabite.

Kiotech has also, through the CEFAS research and development programme, continued to focus on the commercial exploitation of pheromones for the global commercial fishing industry and aquaculture markets.

The Directors believe that Kiotech's pheromone based technology has significant potential in the commercial fishing and aquaculture markets. Whilst the Ultrabite business is trading on a profitable basis, in the short term, net losses are expected to continue mainly due to the planned ongoing research and development expenditure, product marketing and establishment costs.

## **Intellectual Property**

### *Patents*

Kiotech has patents pending in Europe, US and Japan for a pheromone based composition for the attraction of fish. In relation to Europe the European Patent Office (“EPO”) have allowed the patent application and it is currently in the process of proceeding to individual national grants in Austria, Belgium, Switzerland, Cyprus, Germany, Denmark, Spain, Finland, France, the United Kingdom, Greece, Ireland, Italy, Liechtenstein, Luxembourg, Monaco, the Netherlands, Portugal and Sweden. Patent applications are still pending in the US and Japan.

A CEFAS invention regarding a pheromone which increases the feeding activity in a range of fish (“the CEFAS invention”), has resulted in an International Patent application being made in the name of the UK’s Minister of Agriculture, Fisheries and Food. An exclusive licence in respect of the CEFAS invention is included in the CEFAS Agreement. A fish pheromone (“Factor X”) included within this application is a principal component in a range of bait attractants commercialised under the Ultrabite brand.

This CEFAS patent application has completed the international examination phase with a favourable report. Patent applications have been published and are currently pending before the EPO and US Patent Office and a patent application is awaiting examination in Japan. In those countries where the CEFAS patent application is granted, legal grounds will exist to enforce a monopoly over the use of certain fish pheromones, including Factor X to attract fish.

### *Trademarks*

Kiotech has a registered EU community trademark for ULTRABITE (registered 22 February 2002) which is valid in all of the countries of the EU. In addition the Company has a registration for the same trademark in the UK, US (currently limited to use in relation to fishing and/or angling products although an application for extension to aquacultural products is in the process of being granted) and Mexico and the mark has been approved for registration in Canada.

The World Intellectual Property Organisation registered the ULTRABITE mark on 16 September 2004 and they have sent details of this registration to the national trademark offices of Australia, Bulgaria, Belarus, Switzerland, China, Czech Republic, Croatia, Hungary, Japan, Latvia, Moldova, Macedonia, Poland, Romania, the Russian Federation, Slovenia, Slovakia, Turkey, Ukraine, Serbia and Montenegro. In respect of Australia and Hungary, the registrations have been initially refused because similar marks have already been registered by the Company’s distributors.

Trademark applications for the Chinese character version of ULTRABITE are currently in the process of formal consideration.

## **Directors and employees**

### *Board of Directors*

*Nicholas Scott*, aged 54, Executive Chairman. Mr. Scott joined the Board in 2001. Following a commission in the Blues and Royals and a career including, *inter alia*, the restoration of a now famous Andalusian olive estate, Mr. Scott joined T. Hoare & Co. in 1994 as a stockbroker, subsequently becoming a partner.

*John Loftus*, aged 63, Chief Executive. Mr. Loftus, joined the Board in 2004, has 40 years’ experience of working in the international sports fishing marketplace. The majority of this period has been spent with Daiwa Seiko and Shimano, both Japanese multinationals, where he gathered extensive contacts with many companies engaged worldwide in the manufacture and distribution of products for the fishing market.

*David Gyle-Thompson*, aged 61, Non-executive Director. Mr. Gyle-Thompson joined the Board in 2001 and is also Chairman of Onslow Boyd Venture Capital Limited and Beauchamp Marketing Limited, both of which have interests in property and venture capital. Mr. Gyle-Thompson was Chairman of Whittards of Chelsea plc from 1980 to 2000. During this time that company grew from £0.5 million turnover to approximately £35 million turnover and floated successfully on AIM and subsequently moved to the Official List of the UKLA.

*Richard Rose*, aged 49, Non-executive Director. Mr. Rose joined the Board in March 2005. Mr. Rose was Chief Executive of WF Electrical plc between 1993 and 2000 and thereafter was a director of Hagemeyer (UK) plc, a distributor of industrial products. Since 2001 he has been a director of Whittard of Chelsea plc, first as Chief Executive and currently as Chairman. Mr. Rose received “Entrepreneur of the year Award” presented by PLC Awards 2003 in recognition of his achievements at Whittard of Chelsea plc.

In addition to the Directors listed above, under the terms of the CEFAS Agreement, details of which are set out in paragraph 7 of Part IV of this document, CEFAS has the right to appoint a representative to the Board.

The Company does not presently have a Finance Director. The finance function is presently undertaken by Mrs Victoria Wise, the Company's Financial Controller, under the supervision of the Board. Given the Company's current state of development, the Directors consider that the present arrangements are satisfactory. However, this position will be reviewed in the light of the Company's growth and development.

#### *Employees*

As at the date of this document the Group has three employees, excluding the Directors and one consultant.

#### **Share Option Schemes**

The Directors believe that the success of the Company will depend to a large extent on the future performance of the management team. The Directors also recognise the importance of ensuring that all employees are well motivated. With these factors in mind the Company has in place the Kiotech EMI Scheme, the provisions of which are set out in paragraph 4 of Part IV of this document.

Following Admission the Board intends that no more than 10 per cent. of the Company's issued share capital will be under option from time to time.

#### **Details of the Placing**

The Placing Shares will represent approximately 47.8 per cent. of the Enlarged Issued Share Capital of the Company. At the Placing Price, the Placing will raise approximately £1.82 million (net of expenses). Under the Placing Agreement J. M. Finn has agreed as agent for the Company to use its reasonable endeavours to procure places for Placing Shares at the Placing Price conditional, *inter alia*, on Admission. The Placing has not been underwritten by J. M. Finn. The Placing Shares will rank *pari passu* in all respects with the existing Ordinary Shares. The Placing Agreement contains provisions entitling J. M. Finn to terminate the Placing Agreement at any time prior to the completion of the Placing in certain circumstances. If this right is exercised the Placing will lapse. A summary of the principal terms and conditions of the Placing Agreement is set out in paragraph 7 of Part IV of this document.

#### **Reasons for Admission and the use of proceeds**

The net proceeds of the Placing receivable by the Company are approximately £1.82 million. The net proceeds receivable by the Company will be used to enable the Company to continue its research and development programme and for general working capital needs. In addition to facilitating the fundraising being implemented through the Placing, the reasons for the Admission include the following:

- to raise the Group's general profile within its sector and status with its customers and suppliers;
- to assist in recruiting, retaining and incentivising key employees;
- to enable the Group to access a wider range of investors; and
- to provide the Group with more flexibility for further growth.

#### **Lock-in arrangements**

Following Admission, the Directors will hold 5,293,116 Ordinary Shares representing approximately 8.0 per cent. of the Enlarged Issued Share Capital of the Company. Under the terms of the Placing Agreement, the Directors have agreed with J. M. Finn and the Company not to sell, transfer or otherwise dispose of any interest in Ordinary Shares held by them immediately following Admission, other than in certain limited circumstances or with the consent of the Company and J. M. Finn or the broker to the Company from time to time, for a period of 12 months following Admission.

A summary of the principal terms of the Placing Agreement is set out in paragraph 7 of Part IV of this document.

#### **OFEX facility**

Although the Ordinary Shares can currently be traded through OFEX, this facility will close immediately prior to the Ordinary Shares being admitted to trading on AIM.

## **Corporate Governance**

The Directors recognise the importance of sound Corporate Governance. The Company intends, following Admission, to comply with the main provisions of the Combined Code on Corporate Governance as appended to the Listing Rules of the UKLA so far as is practicable and appropriate for a public company of its size. The Company also proposes to follow the recommendations on corporate governance of the Quoted Companies Alliance. The Directors will comply with Rule 21 of the AIM Rules relating to Directors' dealings and will take all reasonable steps to ensure compliance by the Company's applicable employees.

The Audit and Remuneration Committees presently comprise the two non-executive Directors, David Gyle-Thompson and Richard Rose. David Gyle-Thompson chairs both committees. The Audit Committee will review the interim and full year financial statements prior to their publication and receive and review reports from the Group's external auditors and will determine the application of the financial reporting and internal control principles. The Remuneration Committee will be responsible for determining the remuneration of the executive directors and establishing the criteria for the grant and exercise of share options. No Director will be permitted to participate in discussions or a decision concerning his own remuneration. In view of the importance of the matter and the size of the Board, the responsibility for proposing and considering candidates for appointment to the Board is retained by the Board.

## **Enterprise Investment Scheme and Venture Capital Trust Qualifying Investment**

Provisional clearance has been obtained from the Inland Revenue that, with respect to the proposed Placing, the Company will qualify for the taxation advantages offered under the Enterprise Investment Scheme ("EIS"), and is also a qualifying investment under the Venture Capital Trust ("VCT") legislation. However, investors should note that the Company does not make any representations as to whether any investment in the Company will be one in respect of which tax relief under EIS or VCT will be available. New Ordinary Shares issued by the Company in the past have qualified for both EIS and VCT status. Whilst the Company cannot guarantee to conduct its activities in a way designed to allow and preserve EIS relief claimed by investors and to be a qualifying VCT investment, the Directors intend, as far as possible, to do so. Final clearance from the Inland Revenue that the Company's shares qualify for EIS relief and VCT relief cannot be obtained from the Inland Revenue until four months after the Placing Shares have been issued. Although qualifying subscribers should obtain tax relief on their investment under EIS relief or VCT relief neither the Group nor the Directors can provide any warranty or guarantee in this regard. Placees should take their own advice.

Neither the Group nor the Directors give any warranties or undertakings that EIS relief or VCT relief if granted will not be withdrawn. If the Group carries on activities beyond those disclosed to the Inland Revenue then Shareholders may cease to qualify for the tax benefits outlined in this document.

## **Taxation**

General information regarding UK taxation in relation to the Placing and Admission is set out in paragraph 8 of Part IV of this document. **If you are in any doubt as to your tax position you should consult your own independent financial adviser immediately.**

## **CREST**

CREST is a paperless settlement procedure enabling securities to be evidenced otherwise than by certificate and transferred otherwise than by written instrument. Accordingly, settlement of transactions in the Ordinary Shares following Admission may take place within the CREST system if the relevant shareholders so wish.

CREST is a voluntary system and holders of Ordinary Shares who wish to receive and retain share certificates will be able to do so.

## **Dividend Policy**

The Directors anticipate that, following Admission, earnings will be retained for development of the Group's business and will not be distributed for the foreseeable future. The declaration and payment by the Company of any future dividends and the amount will depend on the results of the Group's operations, its financial condition, cash requirements, future prospects, profits available for distribution and other factors deemed to be relevant at the time.

**Additional Information**

Your attention is drawn to Part II of this document which contains risk factors relating to any investment in the Company and to Parts III and IV of this document which contain further information on the Group.

## PART II

### RISK FACTORS

**In addition to the other relevant information set out in this document, the following specific factors should be considered carefully in evaluating whether to make any investment in the Company. The investment offered in this document may not be suitable for all of its recipients. If you are in any doubt about the action you should take, you should consult a person authorised under the Financial Services and Markets Act 2000 who specialises in advising on the acquisition of shares and other securities. A prospective investor ought not to infer any relative importance in relation to the risk factors by reference to the order in which they appear.**

**It should be noted that the risks described below are not the only risks faced by the Company. There may be additional risks that the Directors currently consider not to be material or of which they are currently unaware. The risks set out below are not presented in any assumed order of priority.**

- *Kiotech cannot be certain that it will achieve profitability*

Any adverse events relating to Kiotech's business or a significant shortfall of revenue in relation to Kiotech's expectations or any material delay of customers' order would have an immediate adverse effect on Kiotech's business, operating results and financial condition. There can be no assurance that Kiotech will be profitable in any future period. Kiotech is subject to the risks inherent in the operation of a new business enterprise, and there can be no assurance that it will be able to successfully address these risks.

- *Dependence on new products*

Kiotech has a number of products at various stages of development, some of which are the subject of licensing arrangements. However, continued development of existing or new products cannot be assured.

Other products are at a less advanced stage of development. No assurances can be given that these products will be successfully commercialised or that Kiotech will successfully identify commercialisation opportunities.

The continued success of Kiotech depends upon:

- (a) the generation of increased revenues by further exploitation of existing intellectual property and products;
- (b) the successful commercialisation of new products presently at the development stage by Kiotech; and
- (c) the ability of Kiotech to identify market opportunities and invent, develop and commercialise intellectual property and products appropriate for those markets.

Development of products may take longer than anticipated — development delays, defects in products or new products proving to be unreliable may all lead to a reduction in anticipated revenue generation and/or an increase in research and development costs.

- *Commercial agreements and dependence on certain collaborators*

Currently Kiotech's most important collaborator is CEFAS. If the relationship with CEFAS is adversely affected, Kiotech's operations could be impaired.

Kiotech will be dependent on the successful outcome of a number of important arrangements with outside parties as part of its strategy for commercialisation and marketing of products in the fish sciences market. There can be no assurance that Kiotech will be able to negotiate or continue such arrangements on terms acceptable to Kiotech or that such relationships will be successful. Similarly, circumstances may also arise where the failure by collaborators and third parties to perform their obligations in accordance with their agreements or their withdrawal from distribution or other arrangements with Kiotech or other parties may substantially delay, or halt entirely, further development, production or commercialisation of those products which are the subject of the relevant agreement or agreements or adversely affect the intellectual property protection available for such products.



- *Protection of Intellectual Property*

#### Kiotech

While Kiotech may seek to obtain patent and trademark protection with respect to certain of its technology and brands, there can be no assurance that any such applications will be granted. Despite Kiotech's efforts to protect its proprietary rights, unauthorised parties may attempt without authorisation to use aspects of Kiotech's technology or to obtain and use information that it regards as proprietary. There can be no assurance that Kiotech's competitors who may also have greater resources and facilities will not independently develop similar technology or that Kiotech's means of protecting its proprietary rights will be adequate. In addition, the laws of certain countries in which Kiotech currently generates or expects to generate revenues may not protect Kiotech's proprietary rights to as great an extent as the laws of the United Kingdom or the USA.

#### CEFAS

Kiotech's success will depend to a large extent on CEFAS' ability to establish, protect and enforce intellectual property rights in relation to its existing and future products. Whilst the Directors are confident of the strength and range of CEFAS' patent applications, there can be no assurance that any patent application will be successful or that applications will mature into granted patents. Nor can there be any assurance that patents that may be obtained in the future, will adequately protect Kiotech's products and technology.

There can be no assurance that the CEFAS' patent applications will not become involved in opposition or revocation proceedings instituted by third parties. If such proceedings were initiated against CEFAS' patents, the defence of such rights could involve substantial costs and the outcome could not be predicted. Since patent applications are generally maintained in secrecy for at least 18 months (and in the USA often for much longer) and since publication of discoveries in scientific or patent literature often lags behind actual discoveries, CEFAS cannot be certain that it was the first to file applications for such inventions. Kiotech and CEFAS cannot therefore be certain that granted patents will be enforceable.

Competitors or potential competitors may have filed applications for, may have been granted patents for, or may have obtained additional patents and proprietary rights that may relate to products competitive to those of Kiotech and CEFAS. If patents are granted to other parties that contain claims having a scope that is interpreted to cover any of Kiotech's products, there can be no assurance that Kiotech or CEFAS will be able to obtain licences to such patents at a reasonable cost, if at all, or be able to develop or obtain alternative technology and may be prevented from selling any infringing products and may in some circumstances be liable to pay damages for patent infringement.

Certain of CEFAS' technology and know-how is protected as confidential information. Whilst CEFAS endeavours to maintain the confidentiality of such information, there can be no assurance that it will not be disclosed by employees or third parties and thereby become available for use by competitors or that competitors will not independently develop similar technology.

- *Future intellectual property developed by CEFAS relating to the influencing of fish behaviour*

The exclusive global licence under the CEFAS Agreement covers intellectual property developed after 10 May 2001 relating to influencing fish behaviour only if it is classed as an improvement to intellectual property owned by CEFAS as at 10 May 2001 and 15 October 2002 (the "Existing IP").

In relation to any intellectual property developed by CEFAS in the future which is not classed as an improvement to the Existing IP ("New IP"), Kiotech would have a right of first refusal to exploit it (not an exclusive global licence to exploit it). CEFAS and Kiotech would negotiate the terms of any licence to exploit any New IP. There can be no guarantee that the terms of any such licence would be acceptable to Kiotech or that Kiotech and CEFAS would be able to reach agreement as to its terms.

- *Evolution of technology*

The technology upon which Kiotech's products and services are based is characterised by rapid evolution and frequent innovations. To succeed, Kiotech must develop and introduce, in response to customer and market demands, new releases of its technology and technological designs that offer features and functionality not currently provided. Any delay in Kiotech's ability to develop and release enhanced or new products and designs could seriously harm its business and operating results.

- *Kiotech product*  
 Whilst initial trials of Kiotech’s technology in respect of tilapia, prawn and cod have yielded encouraging results, there can be no guarantee that these results will be replicated in large scale trials.  
  
 The market for pheromones is of limited size and is rapidly evolving. Market forecasts for use of pheromones vary and the speed of acceptance is unpredictable. As a result, demands and market acceptance for Kiotech’s products and services are subject to a high degree of uncertainty and risk. If this new market fails to develop, develops more slowly than expected or becomes saturated with competitors, or Kiotech’s products and services do not achieve or sustain market acceptance, Kiotech may not generate sufficient revenues to be profitable.
- *Competition*  
 There are a number of additives designed to enhance the taste of baits with a view to attracting fish. However, the Company is not aware of any commercial product available in the market that uses identifiable fish pheromones in these attractants or additives. There can however be no assurance that Kiotech’s means of protecting its proprietary rights will be adequate or that Kiotech’s competitors will not independently develop similar technology. However, in countries where the CEFAS patent is granted, legal grounds may exist to enforce a monopoly over the use of certain fish pheromones, including “Factor X”, to attract fish.
- *Business growth and support*  
 To succeed in the implementation of Kiotech’s business strategy, Kiotech’s management team must rapidly develop its technology, seek out new alliances and expand its customer base, while managing anticipated growth. The growth is likely to place a significant strain on Kiotech’s managerial, operational and financial resources and systems. Kiotech anticipates hiring additional personnel to assist in the continued improvement of its technologies. To execute Kiotech’s anticipated growth successfully, it must attract and retain qualified personnel and manage and train them effectively. Kiotech’s anticipated growth will also place additional strain on Kiotech’s suppliers, resulting in increased need for it to carefully monitor for quality assurance. Any failure by Kiotech to manage its growth effectively could have an adverse effect on Kiotech’s business.
- *Retention of key personnel*  
 Kiotech’s continued success is largely dependent on the personal efforts and abilities of Kiotech’s existing senior management. The loss of key employees or advisers or the inability to attract or retain other qualified employees or advisers could have a material adverse effect on Kiotech’s results of operations and financial condition.
- *Requirement for additional funds*  
 Various elements of Kiotech’s business and growth strategies may require additional capital. There can be no guarantee that funds will be available to Kiotech on satisfactory terms when needed. To the extent that Kiotech raises additional equity capital, it would have a dilutive effect on existing Shareholders. If adequate funds are not available, Kiotech will not be able to continue to grow at the planned rate or otherwise achieve certain management objectives. Additionally, Kiotech also may have to reduce its research and development, sales and marketing or customer service staff.
- *Government actions*  
 All governments reserve the right to amend their policies in relation to fisheries management and environmental protection. These policies are subject to change at any time in any country and can impact profoundly upon the fish industry as a whole or in part. As with other environmental groups, the Company has no immunity from governmental actions.
- *Manufacturing, Marketing and Sales*  
 There can be no assurance that Kiotech or its partners will be capable of producing pheromone based products in commercial quantities at acceptable cost or that, if introduced, they will achieve market acceptance.

- *Pheromones*

The commercial success of pheromone based products such as those produced by Kiotech and its partners will depend in part on acceptance by the fishing community and the public of the use of pheromones for fish attractant. If the use of pheromones is not fully accepted by the public or the fishing community then this may decrease the demand for pheromone based products and have an adverse effect on Kiotech's business. This may increase the cost and time necessary to complete development for Kiotech's products and/or restrict, delay or make impossible, the commercial exploitation of their produces.

- *Regulatory approvals*

CEFAS are presently discussing with other Government Agencies whether the pheromone technology is required to be regulated for use within the aquaculture industry. To date, no regulatory impediments have arisen, but investors should be aware that existing regulations may affect the products' technological ability to meet regulatory requirements, or new regulations could be introduced in various territories, which could affect the products' technological ability to meet regulatory requirements.

- *Share price volatility and liquidity*

There can be no assurance that an active market for the Ordinary Shares will develop or be sustained after the Placing.

The Placing Price has been determined by negotiations between the Directors, and J. M. Finn and the current share price of the Company on OFEX. The market for the Ordinary Shares may be highly volatile and subject to wide fluctuations in price in response to a variety of factors, which could lead to losses for Shareholders. These factors include: announcement of technological innovations, changes in government policies, changes in legislation and economic conditions or new products and services by Kiotech or its competitors, fluctuations in Kiotech's operating results, changes in economic performance or market valuations of similar businesses, announcements by Kiotech or its competitors of significant acquisitions, strategic partnerships, joint ventures or capital commitments, additions or departures of key personnel, litigation and press, newspaper and other media reports.

In addition, the Ordinary Shares may not be traded in sufficient volumes to give share liquidity to Shareholders.

Stock markets have also from time to time experienced extreme price and volume fluctuations, which have affected the market prices of securities and which have often been unrelated to the operating performance of the companies affected. These broad market fluctuations, as well as general economic and political conditions, could adversely effect the market price for the Ordinary Shares.

- *Forward looking statements*

This document contains forward-looking statements. These statements relate to the Company's future prospects, developments and business strategies.

Forward-looking statements are identified by their use of terms and phrases such as "believe", "could", "envisage", "estimate", "intend", "may", "plan", "will" or the negative of those, variations or comparable expressions, including references to assumptions. These statements are primarily contained in Part I of this document.

The forward-looking statements in this document are based on current expectations and are subject to risks and uncertainties that could cause actual results to differ materially from those expressed or implied by those statements.

If one or more of these risks or uncertainties described in this Part II materialises, or if underlying assumptions prove incorrect, the Company's actual results may vary materially from those expected, estimated or projected. Given these risks and uncertainties, potential investors should not place any reliance on forward-looking statements.

These forward-looking statements speak only as at the date of this document. Neither the Directors nor the Company undertake any obligation to update forward-looking statements or risk factors other than as required by the AIM Rules or by the rules of any other securities regulatory authority, whether as a result of new information, future events or otherwise.

- *Investment risk and AIM*

The existing Ordinary Shares and the Placing Shares will be quoted on AIM rather than the Official List. The rules of AIM are less demanding than those of the Official List and an investment in shares quoted on AIM may carry a higher risk than an investment in shares quoted on the Official List. AIM has been in existence since June 1995 but its future success and liquidity in the market for the Company's securities cannot be guaranteed. Investors should be aware that the value of the Ordinary Shares and Placing Shares may be volatile and may go down as well as up and investors may therefore not recover their original investment.

The market price of the Ordinary Shares and Placing Shares may not reflect the underlying value of the Company's net assets. The price at which investors may dispose of their shares in the Company may be influenced by a number of factors, some of which may pertain to the Company, and others of which are extraneous. On any disposal investors may realise less than the original amount invested.

**Investors should consider carefully whether the investment in Kiotech is suitable for them in light of the risk factors outlined above, their personal circumstances and the financial resources available to them.**

## PART III

### ACCOUNTANTS' REPORT ON THE GROUP

Grant Thornton Corporate Finance

Grant Thornton 

Grant Thornton UK LLP

Chartered Accountants

UK member of

Grant Thornton International

The Directors  
Kitech International Plc  
22 Melton Street  
London  
NW1 2BW

and

Grant Thornton Corporate Finance  
Grant Thornton House  
Melton Street  
Euston Square  
London  
NW1 2EP

24 June 2005

Dear Sirs

**Kitech International Plc (the “Company”) and its subsidiary undertakings (together the “Group”)**

#### 1. Introduction

1.1 We report on the financial information set out in paragraphs 3 to 7. This financial information has been prepared for inclusion in the AIM admission document dated 24 June 2005 of the Company (the Admission Document).

#### 1.2 *Basis of preparation*

The financial information set out in paragraphs 3 to 7 below is based on the audited consolidated financial statements of the Company for the three years ended 31 December 2004, to which no adjustments were considered necessary.

#### 1.3 *Responsibility*

Such financial statements are the responsibility of the directors of Kitech International Plc who approved their issue.

1.4 It is our responsibility to compile the financial information set out in our report from the financial statements, to form an opinion on the financial information and to report our opinion to you.

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Grant Thornton UK LLP is authorised and regulated by the Financial Services Authority for investment business.

### 1.5 *Basis of opinion*

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. The evidence included that previously obtained by Grant Thornton UK LLP, London relating to the audit of the financial statements underlying the financial information. It also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial statements underlying the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

- 1.6 We planned and performed our work 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 information is free from material misstatement whether caused by fraud or other irregularity or error.

### 1.7 *Opinion*

In our opinion the financial information gives, for the purposes of the Admission Document dated 24 June 2005, a true and fair view of the losses and cash flows of the Company for the three years ended 31 December 2004 and the state of affairs of the Company at the end of each of those years.

### 1.8 *Consent*

We consent to the inclusion in the Admission Document dated 24 June 2005 of this report and accept responsibility for this report for the purposes of paragraph 45(1)(b)(iii) of Schedule 1 to the Public Offers of Securities Regulations 1995.

## **2. Statutory information**

- 2.1 Kiotech International Plc was incorporated as a public company on 7 April 1997.
- 2.2 During the reporting period, the Group comprised three operating entities (Kiotech Limited, Kiotech International Plc and Ultrabite Limited) and two dormant companies (Kiotech R & D Limited and Boditech Diagnostics Limited). All subsidiaries are wholly owned by the Company.

## **3. Accounting policies**

### 3.1 *Basis of preparation*

The Group's financial statements have been prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards.

The principal accounting policies of the Group are set out below.

### 3.2 *Basis of consolidation*

The Group financial statements consolidate those of the Company and of its subsidiary undertakings. Acquisitions of subsidiaries are dealt with by the acquisition method of accounting.

### 3.3 *Turnover*

Group turnover is the total amount receivable by the Group for goods supplied and services provided, excluding VAT and trade discounts.

### 3.4 *Tangible fixed assets and depreciation*

Depreciation is calculated to write down the cost less estimated residual value of tangible fixed assets by equal annual instalments over their expected useful economic lives. The periods generally applicable are:

Office equipment	3 years
Fixtures and fittings	3 years
Plant and machinery	3 years

### 3.5 *Investments*

Investments are included at cost less amounts written off.

### 3.6 *Stocks*

Stocks are stated at the lower of cost and net realisable value.

### 3.7 *Deferred taxation*

Deferred tax is recognised on all timing differences where the transactions or events that give the Group an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred by the balance sheet date. Deferred tax assets are recognised when it is more likely than not that they will be recovered. Deferred tax is measured using rates of tax that have been enacted or substantively enacted by the balance sheet date.

### 3.8 *Foreign currency*

Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the profit and loss account.

### 3.9 *Research and development*

Research and development expenditure is charged to the profit and loss account in the period in which it is incurred.

### 3.10 *Operating leases*

Operating leases are charged to the profit and loss account on a straight line basis over the lease term.

## 4. **Consolidated profit and loss account**

	<i>Note</i>	<i>Year ended 31 December</i>		
		<i>2002</i>	<i>2003</i>	<i>2004</i>
		<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
<b>Turnover</b>	7.1	334	180	217
Cost of sales		(235)	(132)	(149)
Gross profit		99	48	68
Administrative expenses		(1,298)	(565)	(447)
<b>Operating loss</b>		(1,199)	(517)	(379)
Net interest (payable)/receivable	7.2	—	(1)	6
<b>Loss on ordinary activities before taxation</b>	7.1	(1,199)	(518)	(373)
Tax on loss on ordinary activities	7.4	31	8	27
<b>Loss retained and transferred from reserves</b>	7.13	(1,168)	(510)	(346)
<b>Basic loss per share (pence)</b>	7.5	(6.63)	(2.02)	(1.07)

There were no recognised gains and losses other than the results for each financial year.

## 5. Consolidated balance sheets

		<i>As at 31 December</i>		
	<i>Note</i>	<i>2002</i>	<i>2003</i>	<i>2004</i>
		<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
<b>Fixed assets</b>				
Tangible assets	7.6	10	4	4
<b>Current assets</b>				
Stocks	7.8	426	318	304
Debtors	7.9	97	75	76
Cash at bank and in hand		66	42	478
		589	435	858
<b>Creditors: amounts falling due within one year</b>	7.10	(614)	(500)	(243)
<b>Net current (liabilities)/assets</b>		(25)	(65)	615
<b>Total assets less current liabilities and net (liabilities)/assets</b>		(15)	(61)	619
<b>Capital and reserves</b>				
Called up share capital	7.12	2,052	2,101	2,187
Share premium account	7.13	3,769	4,184	5,011
Other reserves	7.13	—	—	113
Profit and loss account	7.13	(5,836)	(6,346)	(6,692)
<b>Equity shareholders' (deficit)/funds</b>	7.14	(15)	(61)	619

## 6. Consolidated cash flow Statements

		<i>Year ended 31 December</i>		
	<i>Note</i>	<i>2002</i>	<i>2003</i>	<i>2004</i>
		<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
<b>Net cash outflow from operating activities</b>	7.15	(1,126)	(486)	(479)
<b>Returns on investments and servicing of finance</b>				
Interest received		—	1	8
Interest paid		—	(2)	(2)
<b>Net cash (outflow)/inflow from return on investments and servicing of finance</b>		—	(1)	6
<b>Taxation</b>				
		8	—	—
<b>Capital expenditure and financial investment</b>				
Purchase of tangible fixed assets		(4)	—	(4)
<b>Net cash outflow from capital expenditure</b>		(4)	—	(4)
<b>Financing</b>				
Issue of share capital		863	465	933
Expenses paid in connection with share issues		(7)	(2)	(20)
<b>Net cash inflow from financing</b>		856	463	913
<b>(Decrease)/increase in cash</b>	7.16	(266)	(24)	436



## 7. Notes to the financial information

### 7.1 Turnover and loss on ordinary activities before taxation

The turnover and loss on ordinary activities before taxation is attributable to that of the development and exploitation of biochemical attractants.

Turnover by geographical segment by destination, was as follows:

	<i>Year ended 31 December</i>		
	<i>2002</i>	<i>2003</i>	<i>2004</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Europe	239	48	46
Rest of the World	95	132	171
	<u>334</u>	<u>180</u>	<u>217</u>

The loss on ordinary activities before taxation is stated after:

	<i>Year ended 31 December</i>		
	<i>2002</i>	<i>2003</i>	<i>2004</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Research and development expenditure	100	33	58
Depreciation	15	6	4
Loss on disposal of tangible fixed assets	4	—	—
Auditors' remuneration:			
– audit services	17	17	18
– non-audit services	4	4	4
Operating lease rentals:			
– buildings	37	37	8
– other	12	11	4
Issue of share options	—	—	113
Exceptional administrative expenses:			
– customer legal fees and settlement	35	—	—
– aborted fundraising costs	146	—	—
	<u>146</u>	<u>—</u>	<u>—</u>

### 7.2 Net interest (payable)/receivable

	<i>Year ended 31 December</i>		
	<i>2002</i>	<i>2003</i>	<i>2004</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Interest payable and similar charges	—	(2)	(2)
Other interest receivable and similar income	—	1	8
	<u>—</u>	<u>(1)</u>	<u>6</u>

### 7.3 Directors and employees

Staff costs during the year were as follows:

	<i>Year ended 31 December</i>		
	<i>2002</i>	<i>2003</i>	<i>2004</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Wages and salaries	293	207	115
Social security costs	40	21	15
	<u>333</u>	<u>228</u>	<u>130</u>

The average number of employees, including directors, during each year were:

	<i>2002</i>	<i>2003</i>	<i>2004</i>
	<i>Number</i>	<i>Number</i>	<i>Number</i>
Management and administration	<u>8</u>	<u>7</u>	<u>7</u>

Remuneration in respect of directors was as follows:

	<i>Year ended 31 December</i>		
	<i>2002</i>	<i>2003</i>	<i>2004</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Emoluments	132	121	52
Compensation for loss of office	65	16	—
	<u>197</u>	<u>137</u>	<u>52</u>

The remuneration can be split by directors as follows:

Year ended 31 December 2002:

	<i>Salary</i>	<i>Compensation</i>		<i>Total</i>
	<i>and fees</i>	<i>Benefits</i>	<i>for loss</i>	
	<i>£'000</i>	<i>£'000</i>	<i>of office</i>	<i>£'000</i>
			<i>£'000</i>	
DCG Gyle-Thompson	26	—	—	26
NCJ Scott	50	—	—	50
GH Dodd	—	1	65	66
JB Loftus	50	5	—	55
	<u>50</u>	<u>5</u>	<u>—</u>	<u>55</u>

Year ended 31 December 2003:

	<i>Salary</i>	<i>Compensation</i>		<i>Total</i>
	<i>and fees</i>	<i>Benefits</i>	<i>for loss</i>	
	<i>£'000</i>	<i>£'000</i>	<i>of office</i>	<i>£'000</i>
			<i>£'000</i>	
DCG Gyle-Thompson	24	—	—	24
NCJ Scott	36	—	—	36
GH Dodd	—	—	16	16
JB Loftus	50	11	—	61
	<u>50</u>	<u>11</u>	<u>—</u>	<u>61</u>

7.3 *Directors and employees (continued)*

Year ended 31 December 2004:

	<i>Salary and fees £'000</i>	<i>Benefits £'000</i>	<i>Compensation for loss of office £'000</i>	<i>Total £'000</i>
DCG Gyle-Thompson	2	—	—	2
NCJ Scott	—	—	—	—
GH Dodd	—	—	—	—
JB Loftus	50	—	—	50
	<u>50</u>	<u>—</u>	<u>—</u>	<u>50</u>

Mr Gyle-Thompson's fees were paid to Onslow Boyd Venture Capital Limited, a company for which he acts as Chairman.

7.4 *Tax on profit on ordinary activities*

The tax credit represents:

	<i>Year ended 31 December</i>		
	<i>2002 £'000</i>	<i>2003 £'000</i>	<i>2004 £'000</i>
United Kingdom corporation tax	(23)	(8)	(14)
Adjustments in respect of prior years	(8)	—	(13)
	<u>(31)</u>	<u>(8)</u>	<u>(27)</u>

The tax assessed is lower than the standard small companies rate of corporation tax in the United Kingdom. The differences are explained as follows:

	<i>Year ended 31 December</i>		
	<i>2002 £'000</i>	<i>2003 £'000</i>	<i>2004 £'000</i>
Loss on ordinary activities before taxation	<u>(1,199)</u>	<u>(518)</u>	<u>(373)</u>
Loss on ordinary activities multiplied by the standard rate of corporation tax in the United Kingdom of 30% (2003: 20%, 2002: 20%)	(239)	(104)	(112)
Expenses not deductible for tax purposes	53	3	64
Capital allowances for the year in excess of depreciation	2	—	—
Increase of trading losses	182	101	26
Other short term timing differences	3	—	22
Research and development tax credited (surrender of losses)	(24)	(8)	(14)
Adjustment in respect of prior years	(8)	—	(13)
	<u>(31)</u>	<u>(8)</u>	<u>(27)</u>

Losses amounting to £4.8 million (2003: £4.5 million, 2002: £4.0 million) remain available for offset against future trading profits, although these are not recognised in the balance sheet.

7.5 *Loss per share*

The calculation of the basic loss per share is based on the loss for the year being £346,100 (2003: £510,100; 2002: £1,167,700) divided by the weighted average number of shares in issue during each year, being 32,230,037 (2003: 25,289,261; 2002: 17,607,272). Share options outstanding at each year end were anti-dilutive.

## 7.6 Tangible fixed assets

	<i>Office equipment £'000</i>	<i>Fixtures and fittings £'000</i>	<i>Plant and equipment £'000</i>	<i>Total £'000</i>
<b>Cost</b>				
At 1 January 2002	42	23	—	65
Additions	1	3	—	4
Disposals	(29)	(23)	—	(52)
At 1 January 2003	14	3	—	17
Additions	—	—	—	—
At 1 January 2004	14	3	—	17
Additions	1	1	2	4
Disposals	(13)	(2)	—	(15)
At 31 December 2004	2	2	2	6
<b>Depreciation</b>				
At 1 January 2002	17	23	—	40
Provided in the year	14	1	—	15
Disposals	(25)	(23)	—	(48)
At 1 January 2003	6	1	—	7
Provided in the year	5	1	—	6
At 1 January 2004	11	2	—	13
Provided in the year	3	1	—	4
Disposals	(13)	(2)	—	(15)
At 31 December 2004	1	1	—	2
<b>Net book amounts</b>				
At 31 December 2002	8	2	—	10
At 31 December 2003	3	1	—	4
At 31 December 2004	1	1	2	4

## 7.7 Fixed asset investments

At 31 December 2002, 2003 and 2004, the Company had interests in the following subsidiaries:

<i>Name of subsidiary</i>	<i>Country of registration</i>	<i>Class of share capital held</i>	<i>Proportion held</i>	<i>Nature of business</i>
Kiotech Limited	England and Wales	Ordinary	100%	Development and exploitation of biochemical attractants
Ultrabite Limited	England and Wales	Ordinary	100%	Development and exploitation of biochemical attractants
Kiotech R & D Limited	Scotland	Ordinary	100%	Dormant
Boditech Diagnostics Limited	England and Wales	Ordinary	100%	Dormant

## 7.8 Stocks

	<i>At 31 December</i>		
	<i>2002</i>	<i>2003</i>	<i>2004</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Raw materials	—	5	19
Work in progress	205	6	5
Finished goods	221	307	280
	<u>426</u>	<u>318</u>	<u>304</u>

## 7.9 Debtors

	<i>At 31 December</i>		
	<i>2002</i>	<i>2003</i>	<i>2004</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Trade debtors	—	15	30
Other debtors	44	24	26
Corporation tax	24	32	15
Prepayments and accrued income	29	4	5
	<u>97</u>	<u>75</u>	<u>76</u>

## 7.10 Creditors: amounts falling due within one year

	<i>At 31 December</i>		
	<i>2002</i>	<i>2003</i>	<i>2004</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Trade creditors	281	258	91
Other taxation and social security	48	2	5
Accruals and deferred income	278	169	145
Other creditors	7	71	2
	<u>614</u>	<u>500</u>	<u>243</u>

## 7.11 Financial instruments

The disclosures in this note deal with financial assets and financial liabilities defined in Financial Reporting Standard 13 “Derivatives and Other Financial Instruments: Disclosures” (FRS13). Certain financial assets, such as an investment in subsidiary companies, are excluded from the scope of these disclosures.

The Group’s financial instruments comprise cash, trade debtors and trade creditors that arise directly from its operations.

The Group’s circumstances and operations do not require the use of complex financial instruments. Nevertheless, the Directors recognise that the Group faces certain currency risk and this is discussed below.

### Short-term debtors and creditors

As permitted by FRS13, short-term debtors and creditors have been excluded from these disclosures, other than currency disclosures.

### Currency risk

The Group operates in overseas markets and is subject to currency exposures on transactions undertaken during each year. The Group does not hedge any transactions, and foreign exchange differences on retranslation of foreign assets and liabilities are taken to the profit and loss account of the Group’s companies and the Group.

### 7.11 *Financial instruments continued*

The Group held the following financial assets at 31 December 2002, 2003 and 2004:

	<i>At 31 December</i>		
	<i>2002</i>	<i>2003</i>	<i>2004</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Cash at bank and in hand	66	42	478

There are no material differences between the fair value and book value of the Group's financial assets and liabilities.

### 7.12 *Share capital*

	<i>At 31 December</i>		
	<i>2002</i>	<i>2003</i>	<i>2004</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Authorised			
2,000,000,000 (2003 and 2002: 115,892,472) ordinary shares of 1p each	1,159	1,159	20,000
1,859,672 'A' shares of 99p each	1,841	1,841	1,841
	<u>3,000</u>	<u>3,000</u>	<u>21,841</u>
Allotted, called up and fully paid			
34,588,362 (2003: 25,953,645, 2002: 21,103,645) ordinary shares of 1p each	211	260	346
1,859,672 'A' shares of 99p each	1,841	1,841	1,841
	<u>2,052</u>	<u>2,101</u>	<u>2,187</u>

The 'A' shares carry no voting, dividend or other rights, including no right to a return of assets on liquidation or otherwise.

The following shares were issued during each year:

<i>Date</i>	<i>Reason for issue</i>	<i>Number of ordinary shares</i>	<i>Nominal value £'000</i>	<i>Premium £'000</i>
Year ended 31 December 2002:				
14 May 2002	Working capital	750,000	7	142
4 July 2002	Working capital	500,000	5	95
9 July 2002	Working capital	1,975,000	20	375
22 July 2002	Salaries taken as shares	282,033	3	54
9 August 2002	Working capital	725,000	7	138
15 October 2002	Working capital	1,700,342	17	—
		<u>5,932,375</u>	<u>59</u>	<u>804</u>
Year ended 31 December 2003:				
20 February 2003	Working capital	4,850,000	49	437

7.12 *Share capital (continued)*

<i>Date</i>	<i>Reason for issue</i>	<i>Number of ordinary shares</i>	<i>Nominal value £'000</i>	<i>Premium £'000</i>
Year ended 31 December 2004:				
16 January 2004	Working capital	5,572,640	55	334
15 April 2004	Salaries and fees taken as shares	186,667	2	16
15 September 2004	Monies due in respect of 20 February 2003 placing taken as shares	150,000	1	14
1 October 2004	Working capital	2,375,410	24	451
1 October 2004	Salaries, fees and expenses taken as shares	350,000	4	32
		8,634,717	86	847

Details of outstanding share options under the Company's Executive share option scheme at 31 December 2002, 2003 and 2004 are set out below:

Details of outstanding share options at 31 December 2002:

<i>At 1 January 2002</i>	<i>Granted in year</i>	<i>Exercised in year</i>	<i>At 31 December 2002</i>	<i>Exercise price</i>	<i>Exercise dates</i>
—	3,160,000	—	3,160,000	£0.35	By 31 December 2004

Details of outstanding share options at 31 December 2003:

<i>At 1 January 2003</i>	<i>Granted in year</i>	<i>Exercised in year</i>	<i>At 31 December 2003</i>	<i>Exercise price</i>	<i>Exercise dates</i>
3,160,000	—	—	3,160,000	£0.35	By 31 December 2004

Details of outstanding share options at 31 December 2004:

<i>At 1 January 2004</i>	<i>Lapsed in the year</i>	<i>Granted in year</i>	<i>At 31 December 2004</i>	<i>Exercise price</i>	<i>Exercise dates</i>
3,160,000	(3,160,000)	—	—	£0.35	By 31 December 2004
—	—	3,600,000	3,600,000	£0.14	By 31 December 2006

Details of outstanding share warrants at 31 December 2002:

<i>At 1 January 2002</i>	<i>Granted in year</i>	<i>Exercised in year</i>	<i>At 31 December 2002</i>	<i>Exercise price</i>	<i>Exercise dates</i>
—	4,825,410	—	4,825,410	£0.20	By 5 September 2004

Details of outstanding share warrants at 31 December 2003:

<i>At 1 January 2003</i>	<i>Granted in year</i>	<i>Exercised in year</i>	<i>At 31 December 2003</i>	<i>Exercise price</i>	<i>Exercise dates</i>
4,825,410	—	—	4,825,410	£0.20	By 5 September 2004
—	150,000	—	150,000	£0.20	By 31 December 2004

7.12 *Share capital (continued)*

Details of outstanding share warrants at 31 December 2004:

<i>At 1 January 2004</i>	<i>Exercised in year</i>	<i>Lapsed in year</i>	<i>At 31 December 2004</i>	<i>Exercise price</i>	<i>Exercise dates</i>
4,825,410	(2,375,410)	(2,450,000)	—	£0.20	By 5 September 2004
150,000	—	(150,000)	—	£0.20	By 31 December 2004

7.13 *Share premium account and reserves*

	<i>Share premium account £'000</i>	<i>Profit and loss account £'000</i>	<i>Other reserves £'000</i>	<i>Total £'000</i>
At 1 January 2002	2,972	(4,668)	—	(1,696)
Retained loss for the year	—	(1,168)	—	(1,168)
Premium on allotment during the year	804	—	—	804
Issue costs	(7)	—	—	(7)
At 1 January 2003	3,769	(5,836)	—	(2,067)
Retained loss for the year	—	(510)	—	(510)
Premium on allotment during the year	437	—	—	437
Issue costs	(22)	—	—	(22)
At 1 January 2004	4,184	(6,346)	—	(2,162)
Retained loss for the year	—	(346)	—	(346)
Premium on allotment during the year	847	—	—	847
Issue of share options	—	—	113	113
Issue costs	(20)	—	—	(20)
At 31 December 2004	<u>5,011</u>	<u>(6,692)</u>	<u>113</u>	<u>(1,568)</u>

Other reserves relates to shares to be issued under outstanding share options.

7.14 *Reconciliation of movements in shareholders' funds*

	<i>Year ended 31 December</i>		
	<i>2002 £'000</i>	<i>2003 £'000</i>	<i>2004 £'000</i>
Loss for the financial period	(1,168)	(510)	(346)
Issue of share options	—	—	113
Issue of shares (net of expenses)	856	464	913
Net (reduction)/increase in shareholders' funds	(312)	(46)	680
Shareholders' (deficit)/funds at 1 January	297	(15)	(61)
Shareholders' (deficit)/funds at 31 December	<u>(15)</u>	<u>(61)</u>	<u>619</u>

7.15 *Net cash outflow from operating activities*

	<i>Year ended 31 December</i>		
	<i>2002 £'000</i>	<i>2003 £'000</i>	<i>2004 £'000</i>
Operating loss	(1,199)	(517)	(379)
Depreciation	15	6	4
Loss on disposal of tangible fixed assets	4	—	—
Issue of share options	—	—	113
(Increase)/decrease in stocks	(164)	108	14
Decrease in debtors	49	31	26
Increase/(decrease) in creditors	169	(114)	(257)
Net cash outflow from operating activities	<u>(1,126)</u>	<u>(486)</u>	<u>(479)</u>



7.16 *Reconciliation of net cash flow to movement in net debt*

	<i>Year ended 31 December</i>		
	<i>2002</i>	<i>2003</i>	<i>2004</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
(Decrease)/increase in cash in the year	(266)	(24)	436
Movement in net funds in the year	(266)	(24)	436
Opening net funds	332	66	42
Closing net funds	66	42	478

7.17 *Analysis of changes in net funds*

	<i>Year ended 31 December</i>		
	<i>2002</i>	<i>2003</i>	<i>2004</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Opening net cash at bank and in hand	332	66	42
Cash flow	(266)	(24)	436
Closing net cash at bank and in hand	66	42	478

7.18 *Capital commitments*

The Company had no capital commitments at 31 December 2004, 31 December 2003 or 31 December 2002.

7.19 *Contingent liabilities*

The Company had no contingent liabilities at 31 December 2004, 31 December 2003 or 31 December 2002.

7.20 *Leasing commitments*

Annual commitments under non-cancellable operating leases are as follows:

	<i>At 31 December</i>		
	<i>2002</i>	<i>2003</i>	<i>2004</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Land and Buildings:			
In one year or less	—	—	—
Between one and five years	37	37	—
	37	37	—
Other:			
In one year or less	—	4	—
Between one and five years	12	—	—
	12	4	—

Yours faithfully

GRANT THORNTON UK LLP

## PART IV

### ADDITIONAL INFORMATION

#### 1. The Company and its Subsidiaries

- 1.1 The Company was incorporated in England on 7 April 1997 with registered number 03345857 as a public limited company under the Act. The liability of the members of the Company is limited.
- 1.2 The Company is a member of a group of which it is the holding company. Its wholly owned subsidiaries all of which are incorporated in England and Wales (with the exception of Kiotech R&D Limited which is incorporated in Scotland) are as follows:
- | <i>Name</i>                  | <i>Principal Activity</i>                               | <i>Issued share capital (fully paid)</i> |
|------------------------------|---|--|
| Ultrabite Limited            | Development and exploitation of biochemical attractants | 1,000 ordinary shares of £1 each         |
| Kiotech Limited              | Development and exploitation of biochemical attractants | 1,178 ordinary share of £1 each          |
| Kiotech R&D Limited          | Dormant   | 1 ordinary share of £1                   |
| Boditech Diagnostics Limited | Dormant   | 100 ordinary shares of £1 each           |
- 1.3 The registered office of each of the above companies is at 22 Melton Street, London NW1 2BW except for Kiotech R&D Limited which, as a company incorporated in Scotland, has its registered office at Dove Cottage, Newstead, Melrose, Roxburghshire, Scotland TD6 9DD.

#### 2. Share Capital

- 2.1 The authorised share capital and maximum issued share capital of the Company (all of which will be fully paid-up) (i) as at the date of this document and (ii) following completion of the Placing and Admission is set out below:

	<i>Authorised</i>		<i>Issued and fully paid</i>	
	<i>£</i>	<i>Number</i>	<i>£</i>	<i>Number</i>
(i) Ordinary Shares	20,000,000.00	2,000,000,000	345,883.62	34,588,362
‘A’ Shares	1,841,075.28	1,859,672	1,841,075.28	1,859,672
(ii) Ordinary Shares	20,000,000.00	2,000,000,000	662,453.62	66,245,362
‘A’ Shares	1,841,075.28	1,859,672	1,841,075.28	1,859,672

- 2.2 Pursuant to resolutions passed on 6 July 2001 each of the then existing issued ordinary shares of £1 each in the Company was sub-divided and re-classified into 1 ordinary share of 1p and 1 ‘A’ share of 99p each (‘A’ Shares) and each then existing authorised but unissued ordinary shares of £1 each in the Company was sub-divided and reclassified into 100 ordinary shares of 1p each. The ‘A’ shares have no voting rights, no right to receive income nor any rights on a return of assets on a liquidation or otherwise.
- 2.3 Pursuant to resolutions passed on 5 May 2005 the Directors have authority to allot Ordinary Shares in the period ending at the conclusion of the Company’s Annual General Meeting in 2006 or 15 months after the passing of the resolution (whichever is the earlier) as follows:
- 2.3.1 general authority pursuant to section 80 of the Act to allot relevant securities up to an aggregate nominal amount of £19,654,116.38; and
- 2.3.2 specific authority pursuant to section 95 of the Act to allot equity securities as if the statutory pre-emption rights under section 89(1) as if the Act did not apply to any such allotment up to an aggregate nominal amount of £437,391.78.
- 2.4 Save to the extent disapplied by the resolution referred to in paragraph 2.3 above, the provisions of section 89 of the Act (which confer on shareholders rights of pre-emption in respect of the allotment of equity securities which are paid up in cash) apply to the authorised but unissued share capital of the Company.
- 2.5 Save as referred to in paragraph 2.1 above of Part I of this document, at the date of this document no share or loan capital of the Company has been issued or agreed to be issued, or is no proposed to be issued, for cash or any other consideration and no commissions, discounts, brokerages or other special terms have been granted by the Company in connection with the issue of this capital.

- 2.6 Save as referred to in paragraphs 4, 5 and 7.6 of this Part IV, no share or loan capital of the Company is under option or has been agreed, conditionally or unconditionally, to be put under option.
- 2.7 Save as disclosed in this document, the Company does not have in issue any securities representing share capital and there are no outstanding convertible securities issued by the Company.

### **3. Memorandum and Articles of Association**

The principal objects of the Company, which are set out in clause 4 of its Memorandum of Association, are to act as a general commercial company and (without limitation) to carry on the business of a holding company.

The Articles of Association of the Company contain, *inter alia*, provisions to the following effect:

#### **3.1 *Voting rights***

Subject to paragraph 3.6 below, and to any special terms as to voting upon which any shares may for the time being be held, on a show of hands every member who (being an individual) is present in person or (being a corporation) is present by its duly appointed representative shall have one vote and on a poll every member present in person or by representative or proxy shall have one vote for every Ordinary Share in the capital of the Company held by him. A proxy need not be a member of the Company.

#### **3.2 *Variation of rights***

If at any time the capital of the Company is divided into different classes of shares all or any of the rights or privileges attached to any class of shares in the Company may be varied or abrogated with the consent in writing of the holders of three-fourths in nominal value of the issued shares of that class or with the sanction of an extraordinary resolution passed at a separate general meeting of the holders of the shares of that class. At every such separate general meeting (except an adjourned meeting), the quorum shall be two persons holding or representing by proxy one-third in nominal value of the issued shares of that class.

#### **3.3 *Alteration of capital***

The Company may by ordinary resolution increase its share capital, consolidate and divide all or any of its share capital into shares of a larger nominal value, sub-divide all or any of its shares into shares of a smaller nominal value and cancel any shares not taken, or agreed to be taken, by any person.

The Company may, subject to the Act, by special resolution reduce or cancel its share capital or any capital redemption reserve or share premium account.

Subject to and in accordance with the provisions of the Act, the Company may purchase its own shares (including any redeemable shares), provided that the Company shall not purchase any of its shares unless such purchase has been sanctioned by an extraordinary resolution passed at a separate meeting of the holders of any class of shares convertible into equity share capital of the Company unless the terms of issue of such convertible shares provide to the contrary.

#### **3.4 *Transfer of shares***

A member may transfer all or any of his shares by instrument in writing in any usual or common form or in such other form as may be approved by the Directors. The instrument of transfer of a certificated share shall be executed by or on behalf of the transferor and, if the share is not fully paid, by or behalf of the transferee. The Directors may in their absolute discretion refuse to register a transfer of any share which is not fully paid, provided that dealings in the shares are not prevented from taking place on an open and proper basis. Subject to paragraph 3.6 below, the Articles contain no restrictions on the free transferability of fully paid shares provided that the transfer is in respect of only one class of share and is accompanied by the share certificate and any other evidence of title required by the Directors and that the provisions in the Articles relating to the deposit of instruments for transfer have been complied with.

#### **3.5 *Dividends***

3.5.1 The Company may by ordinary resolution in general meeting declare dividends provided that no dividend shall be paid otherwise than out of profits and no dividend shall exceed the amount recommended by the Directors. The Directors may from time to time pay such interim dividends as appear to the Directors to be justified.

3.5.2 Subject to the rights of persons, if any, holding shares with special dividend rights, and subject to paragraph 3.6 below, all dividends shall be apportioned and paid *pro rata* according to the amounts paid or credited as paid on the shares during any portion or portions of the period in respect of which the dividend is paid.

3.5.3 All dividends unclaimed for a period of 12 years after having been declared shall if the Directors so resolve be forfeited and shall revert to the Company.

3.5.4 There is no fixed date on which an entitlement to dividend arises.

### 3.6 *Suspension of rights*

If a member or any other person appearing to be interested in shares held by such shareholder has been duly served with notice under section 212 of the Act and is in default in supplying to the Company within 28 days (or such other period as may be specified in such notice) the information thereby required, then (if the Directors so resolve) such member shall not be entitled to vote or to exercise any right conferred by membership in relation to meetings of the Company in respect of the shares which are the subject of such notice. Where the holding represents more than 0.25 per cent. of the issued shares of that class the time period for responding to such notice is reduced to 14 days, and the Company has the additional rights to suspend the payment of dividends, and such member shall not be entitled to transfer such shares otherwise than by an arms length sale.

### 3.7 *Return of capital*

Subject to any preferred, deferred or other special rights, or subject to such conditions or restrictions to which any shares in the capital of the Company may be issued, on a winding-up or other return of capital, the holders of Ordinary Shares are entitled to share in any surplus assets *pro rata* to the amount paid up on their Ordinary Shares. A liquidator may, with the sanction of an extraordinary resolution of the Company and any other sanction required by the Companies Acts, divide amongst the members *in specie* or in kind the whole or any part of the assets of the Company, those assets to be set at such value as he deems fair. A liquidator may also vest the whole or any part of the assets of the Company in trustees on trusts for the benefit of the members.

### 3.8 *Pre-emption rights*

There are no rights of pre-emption under the articles of association of the Company in respect of transfers of issued Ordinary Shares. In certain circumstances, the Company's shareholders may have statutory pre-emption rights under the Act in respect of the allotment of new shares in the Company. These statutory pre-emption rights would require the Company to offer new shares for allotment by existing shareholders on a *pro rata* basis before allotting them to other persons. In such circumstances, the procedure for the exercise of such statutory pre-emption rights would be set out in the documentation by which such shares would be offered to the Company's shareholders.

### 3.9 *Borrowing powers*

The Directors may exercise all the powers of the Company to borrow money and to mortgage or charge all or any part of its undertaking, property and uncalled capital and subject to the provisions of the Act to issue debentures and other securities, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

## **4. Summary of the Kiotech EMI Scheme**

### 4.1 *Introduction*

Pursuant to the Kiotech EMI Scheme the Company has granted options over 663,941 Ordinary Shares in aggregate at an exercise price of 14p per Ordinary Share and 100,000 options over Ordinary Shares at an exercise price of 16.25p under the Enterprise Management Incentives ("EMI") legislation ("EMI Options"). The EMI Options take the form of an individual contract between the Company and each of the employees. Each of the option agreements have been granted on identical terms the principal terms of which are set out below.

### 4.2 *Eligibility*

Any employee of the Company or of a subsidiary of the Company who satisfies the following conditions:

- 4.2.1 works either at least 25 hours per week; or
- 4.2.2 devotes 75 per cent. of their working time to the business of the Company or the business of a subsidiary; and
- 4.2.3 who does not already own either directly or indirectly through his associates more than 30 per cent. of the Ordinary Share capital of the Company;
- may be granted an EMI Option at the discretion of the Directors.

#### 4.3 *Individual Limit on Participation*

An individual employee's participation under an EMI Option is limited so that the aggregate market value at the date of the grant of the EMI Option, of the shares placed under the EMI Option, and under any share option scheme approved by the Inland Revenue under Schedule 9 to the Income and Corporation Taxes Act 1988 (except those granted under a savings related share option scheme) held by that employee cannot exceed £100,000.

#### 4.4 *Performance Targets*

The terms of each EMI Option permit the Directors to place any performance conditions as they see fit. However, no performance conditions apply to the EMI Options already granted.

#### 4.5 *Exercise*

All EMI Options granted to date are capable of being exercised at any time prior to 31 December 2006.

In general the options may only be exercised for so long as the optionholder remains a Group Eligible Employee or Consultant. If the optionholder ceases to be a Group Eligible Employee or Consultant by reason of being a "Good Leaver" then options may be exercised for a period of 6 months after such event (or any stated vesting date if later).

In addition, on any takeover offer being made for the whole of the Company's issued Ordinary Shares (whether conditional or unconditional as to acceptances) which results in a change of control of the Company any vested options may be exercised immediately before, and conditionally upon, such change of control (or within six months thereafter).

Under the granted option deeds the exercise of options is subject to the condition that the optionholder (where applicable) meets the Company's secondary National Insurance Contributions due on the exercise or release of the options.

#### 4.6 *Non-Transferability of Options*

The EMI Options are non-transferable, except to the personal representatives of the employee. An EMI Option shall lapse immediately if it is purportedly transferred, mortgaged, charged or assigned.

#### 4.7 *Scheme Limits*

The maximum number of Ordinary Shares which may be placed under option when added to the number of Ordinary Shares allocated in the preceding ten years under the Kiotech EMI Scheme shall not exceed four million Ordinary Shares, unless the granting of any excess has been authorised by the Company's shareholders. Conditionally upon Admission the Company has resolved to increase the limit on the number of Ordinary Shares which may be placed under option under both the Kiotech EMI Scheme and any other share option schemes established by the Company to such number of Ordinary Shares as represents 10 per cent. of the Company's issued share capital from time to time.

#### 4.8 *Variations of Share Capital*

For these purposes "Variation" of share capital includes any capitalisation, rights issue, sub-division, consolidation or reduction or any other variation in the Ordinary Share capital of the Company occurring after the date of grant. Upon a Variation of the Ordinary Share capital of the Company, the Directors may adjust either the number of Ordinary Shares an employee is entitled to acquire under the EMI Option agreement or adjust the exercise price in a manner they consider fair and reasonable, provided this is confirmed in writing from the Company's auditors.

#### 4.9 Alterations

The Directors may at any time alter the provisions of an EMI Option agreement provided that the rights of the employee are not adversely affected and approval has been obtained in a general meeting with regard to any material amendment. Details of the alteration would also need to be notified to the Inland Revenue.

#### 4.10 Disqualifying Events

Schedule 14 to the Finance Act 2000 sets out specific events which are to be treated as “Disqualifying Events” the consequence of which will either cause the EMI Options to lapse immediately or 40 days from the date the event took place, if the EMI Options have not been exercised within that 40 day period.

#### 4.11 Unapproved Options

Under the terms of the Kiotech EMI Scheme the Company may issue options which do not comply with the EMI legislation (“Unapproved Options”) but otherwise upon the same principal terms and conditions as under the Kiotech EMI Scheme. To date the Company has issued Unapproved Options over 2,936,059 Ordinary Shares at an exercise price of 14p per Ordinary Share.

### 5. Directors’ and Other Interests

5.1 The interests (all of which are beneficial except as shown below) of the Directors and the immediate families in the existing Ordinary Share capital of the Company (any ‘A’ shares held by such persons have been disregarded as they have no economic value or voting rights) which have been notified to the Company pursuant to section 324 or 328 of the Act or which are required to be entered into the Register maintained under the provisions of section 325 of the Act (so far as is known to the Directors, having made appropriate enquiries) or persons connected with them (which expression shall be construed in accordance with section 346 of the Act) as at the date of publication of this document and as they are expected to be immediately following Admission are as follows:

	<i>At the date of this document</i>		<i>On Admission</i>	
	<i>Ordinary Shares</i>	<i>%</i>	<i>Ordinary Shares</i>	<i>%</i>
Nicholas Scott	1,697,033	4.91	2,397,033	3.62
John Loftus	679,116	1.96	679,116	1.03
David Gyle-Thompson	1,502,667*	4.34	1,502,667*	2.27
Richard Rose	—	—	714,300	1.08

\* 536,000 of these Ordinary Shares are held on behalf of the David Gyle-Thompson 2003 Settlement, a discretionary trust for the benefit of his children.

5.2 The Directors are also interested in unissued Ordinary Shares under share options held by them pursuant to the Kiotech EMI Scheme or, as unapproved options as follows:

<i>Option Holder</i>	<i>Date of Grant</i>	<i>Number of Ordinary Shares</i>		<i>Exercise Price</i>	<i>Final Exercise Date</i>
		<i>EMI Scheme</i>	<i>Unapproved Scheme</i>		
John Loftus	30.03.04	583,941	16,059	14p	31.12.06
Nicholas Scott	30.03.04	—	1,250,000	14p	31.12.06
David Gyle-Thompson	30.03.04	—	1,100,000	14p	31.12.06

5.3 In addition, Richard Rose has been granted 500,000 options to subscribe for Ordinary Shares at a price of 7 pence per Ordinary Share pursuant to a stand alone share option deed dated 15 March 2005. These options are exercisable during the period commencing 15 September 2006 and ending on the earlier of: (a) 15 March 2015; (b) the date on which notice is given by Mr Rose to the effect that his appointment as a non-executive Director shall terminate under the terms of his appointment; or (c) the date on which the Company summarily terminates his appointment as a non-executive Director under the terms of his appointment.

- 5.4 Save as disclosed above, none of the Directors has any interests in the share capital or loan capital of the Company or any of its subsidiaries nor does any person connected with the Directors (within the meaning of section 346 of the Act) have any such interests, whether beneficial or non-beneficial.
- 5.5 In addition to their directorships in the Company, the Directors currently hold or have held the following directorships within the five years prior to the date of this document and/or currently are or have been a partner in the following partnerships within the five years prior to the date of this document:

<i>Name</i>	<i>Current directorships and partnerships</i>	<i>Previous directorships and partnerships</i>
John Loftus	Ultrabite Limited The West Wales Chamber of Commerce Chamber Wales — Siamb Cymru Limited British Chambers of Commerce	None
Richard Rose	A.C. Electrical Wholesale plc A.C. Electrical Holdings plc Whittard of Chelsea plc Electro Switch Limited Nanoscience Inc	WF Electrical plc Hagemeyer (UK) Limited Nyquist Electrical Components Limited J & N Wade Limited Blackstone Holdings Limited Runcorn Distribution Centre Limited
Nicholas Scott	Ultrabite Limited Kiotech Limited Kiotech R&D Limited Boditech Diagnostics Limited	T Hoare & Co (Partnership) Mr Snag Limited The Write People (Graphology) Limited Whitehall Flats (Sandwich Bay) Limited
David Gyle-Thompson	Ultrabite Limited Kiotech Limited Kiotech R&D Limited Boditech Diagnostics Limited Onslow Boyd Venture Capital Limited Beauchamp Marketing Limited Pascal Properties Limited Disfield Limited Pelham Publishing Limited Indochina Assets Limited Indochina Holdings Limited	Kember Smith Limited (Dissolved) Aquis Europe Limited Whittard of Chelsea plc Whittard and Company Limited Whittard Trading Company Limited

5.6 David Gyle-Thompson was a non-executive director of Kember Smith Limited as a representative of venture capital investors. He resigned on 8 January 1997 and the Company subsequently went into creditors' voluntary liquidation in May 1997. The deficit to creditors was approximately £86,000.

5.7 Save as disclosed in paragraph 5.6 above, no Director:

5.7.1 has any unspent convictions in relation to indictable offences; or

5.7.2 has been bankrupt or the subject of an individual voluntary arrangement, or has had a receiver appointed to any asset of such Director; or

5.7.3 has been a director of any company which, while he was a director or within 12 months after he ceased to be a director, had a receiver appointed or went into compulsory liquidation, creditors voluntary liquidation, administration or company voluntary arrangement, or made any composition or arrangement with its creditors generally or with any class of its creditors; or

5.7.4 has been a partner of any partnership which, while he was a partner or within 12 months after he ceased to be a partner, went into compulsory liquidation, administration or partnership voluntary arrangement, or had a receiver appointed to any partnership asset; or

5.7.5 has had any public criticism by statutory or regulatory authorities (including recognised professional bodies); or

5.7.6 has been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of any company.

5.8 Save as disclosed in paragraph 5.1 above, and as set out below, the Directors are not aware of any person, directly or indirectly, jointly or severally, who exercises or could exercise control over the Company or who is interested in 3 per cent. or more of the issued Ordinary Share capital of the Company (any 'A' shares have been disregarded for those purposes as they have no economic value or voting rights):

<i>Name</i>	<i>At the date of this document</i>		<i>On Admission</i>	
	<i>Ordinary Shares</i>	<i>%</i>	<i>Ordinary Shares</i>	<i>%</i>
Chase Nominees Limited	7,371,979	21.31	7,371,979	11.13
Forest Nominees Limited	4,725,886	13.66	4,725,886	7.13
Pershing Keen Nominees Limited	1,461,835	4.23	1,461,835	2.21
CEFAS Technology Limited	1,164,226	3.37	1,164,226	1.76
Artemis Investment Management Limited	—	—	3,571,430	5.39
First State Investments	—	—	7,200,000	10.87
Fiske plc	—	—	2,000,000	3.02
Framlington Investment Management Limited	—	—	2,142,860	3.23
Invesco Perpetual	—	—	3,571,500	5.39
JP Morgan Fleming	—	—	2,857,150	4.31

5.9 No loans made or guarantees granted or provided by any member of the Group to or for the benefit of any Director are outstanding.

5.10 No Director is or has been interested in any transaction which is or was unusual in its nature or conditions or significant to the business of the Group and which was effected by the Company or any of its subsidiaries during the current year or any earlier financial year and remains in any respect outstanding or unperformed.

## **6. Directors' Service Agreements**

6.1 Nicholas Scott has entered into a service agreement with the Company dated 20 June 2005 subject to termination upon 12 months' notice by either party. The agreement provides for an annual salary of £50,000.

6.2 John Loftus has entered into a service agreement with the Company dated 20 June 2005 subject to termination upon 12 months' notice by either party. The agreement provides for an annual salary of £60,000.

6.3 The services of David Gyle-Thompson as non-executive Director are provided under the terms of a secondment agreement with the Company and Onslow Boyd Venture Capital Limited dated 30 January 2002 subject to termination upon at least 6 months' notice, at a current fee of £26,000 increasing to £30,000 per annum on Admission.

6.4 The services of Richard Rose as non-executive Director are provided under the terms of an agreement with the Company dated 15 March 2005 subject to termination on one month's notice at an initial fee of £15,000 per annum. In addition, Mr. Rose's service company Electro Switch Limited invoices the Company £5,000 per annum for provision of office and secretarial support services. Pursuant to the terms of this agreement Mr. Rose was also granted the options noted at paragraph 5.3 above.

6.5 Save as set out in paragraphs 6.1, 6.2, 6.3 and 6.4 above, there are no service agreements in existence between any of the Directors and the Company or any of its subsidiaries which cannot be determined by the employing company without payment of compensation (other than statutory compensation) within one year.



- 6.6 The aggregate remuneration payable and benefits in kind granted to the Directors was £52,000 for the financial year ended 31 December 2004 and is estimated to be approximately £143,000 for the current financial year ending 31 December 2005 under the arrangements in force at the date of this document.

## 7. Material Contracts

In addition to the CEFAS intellectual property licence and sub-licence summarized in paragraph 7.1 and 7.2 below, the other contracts described in this paragraph 7, not being contracts entered into in the ordinary course of business, have been entered into by the Company and its subsidiaries during the two years preceding the date of this document and are or may be material:

- 7.1 On 10 May 2001 Ultrabite Limited entered into a licence and development agreement (the "Original Licence") with The Secretary of State for the Environment, Food and Rural Affairs acting through CEFAS whereby in consideration of royalty payments to be made by Ultrabite Limited, CEFAS granted Ultrabite Limited an exclusive licence to develop, manufacture, have manufactured, use, sell or supply products that utilised and incorporated (wholly or partly) any intellectual property licensed under the agreement and which are developed or manufactured by either party for Ultrabite including the product known as Ultrabite ("Ultrabite Product"). On 15 October 2002, CEFAS, Ultrabite Limited and the Company entered into a deed of assignment and variation under which Ultrabite Limited assigned the Original Licence to the Company and the Company and CEFAS varied the Original Licence into a new form (the "Varied Licence"). Under the terms of the Varied Licence, CEFAS granted to the Company an exclusive world-wide licence to develop, sub-licence, manufacture, have manufactured, use, sell or supply any and all products that utilise and incorporate (wholly or partly) (a) CEFAS Intellectual Property (defined as intellectual property owned by CEFAS up to the date of the agreement which relates to influencing, modifying or affecting fish behavior including patent no. W002/09533 ("CEFAS Patent") or (b) patent no. W099/16315 ("Kiotech Patent") including but not limited to the Ultrabite Product and any improvements thereto, together with an exclusive licence to use the CEFAS Intellectual Property (insofar as it relates to the Licensed Products). The term of the Varied Licence is a period of 20 years from 10 May 2001 unless terminated earlier in certain eventualities (see below) (the "Term"). Under the terms of the Varied Licence the Company is entitled to grant sublicences with the prior consent of CEFAS. The Varied Licence expressly consents to sublicensing by the Company to Ultrabite Limited in the form of sub-licence scheduled to the Varied Licence.

The Company agreed to pay royalties to CEFAS as follows:

- in respect of the Ultrabite Product, 5 per cent. of Net Sales (defined as gross revenue received by the Company less agreed deductions to include sales taxes, transport and insurance costs, trade discounts and bad debts) from the period 10 May 2001 to 10 May 2002 and 6 per cent. of Net Sales for the period commencing on 11 May 2002 and continuing for the remainder of the Term;
- in respect of any other Licensed Products 6 per cent. of Net Sales for the Term.

The Company is obliged to mark all Licensed Products to reflect the involvement of CEFAS and CEFAS is granted the right to approve or amend the marketing, get-up and labeling of Licensed Products and any other promotional and commercial material. CEFAS also agrees to provide the Company access to its research facilities and development services in mutually agreed terms. CEFAS also grants to the Company the right of first refusal with regard to exploitation rights for any intellectual property owned or developed in the future by CEFAS which relates to or is concerned with influencing fish behaviour. If the Company makes any Improvements (as defined in the Varied Licence) to the Licensed Products or their method of manufacture it is required to grant CEFAS a royalty free non-exclusive licence for its statutory functions and for the carrying out of research and development and for non-commercial purposes. CEFAS agrees to maintain the CEFAS Patent in jurisdictions agreed between CEFAS and the Company.

If agreed by both parties, CEFAS will carry out research and/or testing in connection with the Ultrabite Product and/or the development of new products which utilise and incorporate wholly or partly intellectual property belonging to the Company or CEFAS. The ownership of any new intellectual property arising out of such new products (as applied to improvements on the same) shall be dealt with in accordance with such terms as are negotiated in good faith between the parties.

The Company indemnifies CEFAS, and the Crown against claims, damages, costs and expenses arising directly or indirectly out of or in relation to the manufacture, use, sale or supply of Licensed Products

or any breach by the Company of its obligations under the Varied Licence. The Company agrees to maintain insurance cover in respect of risks arising out of its obligations under the Varied Licence.

CEFAS has the right to nominate a director to the Board of the Company and two directors to the Board of Ultrabite Limited provided, in the case of the Company, any individual nominated is acceptable to the Chairman of the Company and the Company's financial advisers. This right continues whilst CEFAS holds at least one per cent. of the share capital of the Company and the Varied Licence remains in force.

The Varied Licence may be terminated, without notice, in certain circumstances by either party including:

- a material breach of the terms of the Varied Licence (not capable of remedy within 60 days); or
- insolvency or an insolvency related event of the other party.

Assignment of the Varied Licence is prohibited without agreement.

In respect of non-commercial activities the Company permits CEFAS to use the CEFAS intellectual property and Kiotech Patent without any fee or royalty for the sole purpose of its statutory function and for research and development and non-commercial purposes of CEFAS.

- 7.2 By an agreement dated 15 October 2002 the Company granted a sub-licence of its rights under the Varied Licence to Ultrabite Limited.
- 7.3 On 21 April 2005 the Company entered into an agreement with Grant Thornton Corporate Finance pursuant to which Grant Thornton Corporate Finance agreed to act as the Company's nominated adviser and to advise and assist the Company in respect of the AIM Rules. The agreement is terminable by either party on the giving to the other of 30 days' prior written notice. The agreement contains indemnities from the Company to Grant Thornton Corporate Finance.
- 7.4 The Placing Agreement dated 24 June 2005 between the Company (1) the Directors (2) and the partners of J. M. Finn (3) pursuant to which J. M. Finn has agreed as agent for the Company and conditionally, *inter alia* upon Admission, to use its reasonable endeavours to procure places for the Placing Shares at the Placing Price. The Placing is not being underwritten. Under the terms of the Placing Agreement, the Company has agreed, subject to Admission to pay J. M. Finn a corporate finance fee of £30,000 (plus VAT) and a commission of 2.5 per cent., of the aggregate value at the Placing Price of the Placing Shares placed with certain persons introduced by the Directors, a commission of 3 per cent. of the aggregate value at the Placing Price of the Placing Shares placed with persons introduced by Smith's Corporate Advisory Limited and a commission of 5 per cent. of the aggregate value at the Placing Price of the remaining Placing Shares. In addition the Company will pay all of the costs, charges and expenses of J. M. Finn (plus VAT) incurred in connection with the Placing and the services to be provided by J. M. Finn including those relating to legal advisers. The Placing Agreement contains warranties given by the Company and the Directors and an indemnity given by the Company in favour of J. M. Finn together with provisions which enable J. M. Finn to terminate the Placing Agreement in certain specified circumstances prior to Admission, including (amongst other matters) circumstances where any warranties are found to be untrue or inaccurate in any material respect. The agreement also contains a tax indemnity given by the Directors to the Company in respect of certain limited tax liabilities. The Directors have also undertaken not to dispose of any Ordinary Shares during the period of 12 months following Admission without the consent of the Company and J. M. Finn save in certain limited circumstances including in connection with a takeover offer the ability to accept an offer to give irrevocable undertakings to accept an offer, to sell to an offeror or potential offeror who has been named in an announcement pursuant to the City Code or on the death of that Director.
- 7.5 A Broker Agreement dated 24 June 2005 between the Company and J. M. Finn pursuant to which J. M. Finn has agreed to act as Broker subject to three months' written notice by either party. Under the Broker Agreement, the Company has agreed to pay J. M. Finn a fee of £25,000 plus VAT per annum for acting as Broker.
- 7.6 A letter agreement dated 9 December 2004 between the Company (1) and Smith's Corporate Advisory Ltd. ("Smith's") (2) pursuant to which Smith's have agreed to provide certain corporate advisory services to the Company which may have an impact on its proposed fund raising and move to AIM. Under the agreement the Company has agreed to pay a fee of £25,000 and to grant Smith's an option to acquire 345,883 Ordinary Shares in the Company at a price of 17.2p per share.

- 7.7 An option agreement dated 24 June 2005 entered into between the Company (1) and Smith's Corporate Advisory Ltd. (2) pursuant to which Smith's have been granted an option to subscribe for 345,883 Ordinary Shares at a price of 17.2p per share exercisable for 3 years from the date of Admission.
- 7.8 The share option deed entered into between the Company and Richard Rose referred to in paragraph 5.3 above.

## 8. Taxation

The following information is given in summary form only and is based on tax legislation as it exists at the present time. The information relates to the tax position of holders of Ordinary Shares in the capital of the Company who are resident or ordinarily resident in the United Kingdom for tax purposes. The statements below do not constitute advice to any shareholder on his or her personal tax position and may not apply to certain classes of investor (such as persons carrying on a trade in the United Kingdom or United Kingdom insurance companies).

### *EIS income tax relief*

An investor subscribing for Ordinary Shares will be entitled to claim income tax relief on amounts subscribed up to a maximum of £200,000 for any given year of assessment at the lower rate of income tax. This is currently 20 per cent. providing, on current rates, a maximum tax saving of £40,000. EIS relief is limited to the amount which reduces the investor's income tax liability to nil.

The qualifying period for holding shares as an EIS investment is three years.

### *EIS Capital Gains Tax Relief*

If EIS Income Tax Relief is given and is not withdrawn, any gain accruing to an individual on the first disposal, three years or more after the issue of the Ordinary Shares, is not chargeable to capital gains tax. If a disposal of Ordinary Shares on which EIS Income Tax Relief has been given results in a capital loss, the capital loss is allowable. In calculating the loss, the original amount subscribed by the individual is treated as reduced by the amount of the EIS Income Tax Relief given and not withdrawn.

### *EIS Capital Gains Deferral Relief*

A UK resident investor can defer the payment of capital gains tax due (on any asset), by reinvesting the gain arising on the sale of that asset into a subscription of Ordinary Shares. The reinvestment must be made during the period beginning 12 months prior to the date of the disposal of the asset giving rise to the gain and ending 36 months after the disposal date.

### *Inheritance Tax (IHT) Relief*

Unquoted Ordinary Shares (and this also includes AIM listed shares) in companies such as the Company usually qualify for 100 per cent. IHT Business Property Relief, provided they have been held for two years prior to an event giving rise to a potential charge to IHT.

If an individual Shareholder makes a lifetime gift of shares, or dies whilst still the holder of the Ordinary Shares, IHT may not be payable provided the shares have been held for at least two years prior to the gift or death. In the event of a lifetime gift, the transferee may need to retain these Ordinary Shares for up to seven years to ensure Business Property Relief remains available to the transferor.

### *Income Tax*

Under current United Kingdom taxation legislation, no withholding tax will be deducted from dividends paid by the Company.

Individual Shareholders resident for tax purposes in the United Kingdom should generally be entitled to a tax credit in respect of any dividend received. The amount of this tax credit in respect of dividends paid is currently set at  $\frac{1}{9}$  of the amount of the dividend. Such an individual Shareholder's liability to United Kingdom income tax is calculated on the aggregate of the dividend and the tax credit which will be regarded as the top slice of the individual's income. The tax credit is therefore currently set at 10 per cent. of the combined amount of the dividend and the tax credit. The tax credit will be available to offset such Shareholder's liability (if any) to income tax on the dividend. The tax credit will discharge the income tax liability of an individual Shareholder who is not liable to income tax at a rate greater than the basic rate. A Shareholder who is liable to income tax at the higher rate applicable to dividends received from UK companies (currently 32.5 per cent.) will after taking account of the 10 per cent. tax

credit, be liable to additional income tax of 22.5 per cent. of the gross dividend, equal to 25 per cent. of the net dividend. Repayment of the tax credit cannot be claimed from the Inland Revenue where the tax credit exceeds the tax liability of a United Kingdom resident individual.

With certain exceptions for traders in securities, a holder of Ordinary Shares that is a company resident (for taxation purposes) in the United Kingdom and receives a dividend paid by the Company will not be subject to tax in respect of the dividend.

The right of a holder of Ordinary Shares who is not resident (for tax purposes) in the United Kingdom to a tax credit in respect of a dividend received from the Company and to claim payment of any part of that tax credit will depend on the existence and terms of a relevant double tax convention concluded with the United Kingdom. Holders who are not resident in the United Kingdom should consult their own tax advisers concerning their liabilities on dividends received, whether they are entitled to claim any part of the tax credit and, if so, the procedure for so doing.

#### *United Kingdom taxation on Chargeable Gains*

A disposal on all or any part of the Ordinary Shares acquired under the placing may, depending on the shareholder's individual circumstances, give rise to a liability to pay United Kingdom taxation on chargeable gains. Individuals, personal representatives and trustees may be entitled to taper relief, which may serve to reduce the chargeable gain. Companies are not entitled to taper relief, but are entitled to indexation allowance which may reduce any chargeable gain.

#### *Stamp Duty and Stamp Duty Reserve Tax*

No United Kingdom stamp duty or stamp duty reserve tax will be payable on the issue by the Company of Ordinary Shares. Transfers of Ordinary Shares for value will give rise to a liability to United Kingdom *ad valorem* stamp duty, or stamp duty reserve tax, at the rate in each case of 50p per £100 of the amount or value of the consideration (rounded up in the case of stamp duty to the nearest £5). Transfers under the CREST system for paperless transfers of shares will generally be liable to stamp duty reserve tax.

**Investors are strongly advised to seek professional advice on the availability of tax reliefs, including EIS relief in connection with a holding of Ordinary Shares.**

**The above statements are intended only as a general guide to certain aspects of current tax law and Inland Revenue practice in the United Kingdom. It is directed at United Kingdom residents beneficially entitled to their Ordinary Shares held as investments. It may not apply to certain classes of shareholder such as dealers in securities or to persons who are not resident or ordinarily resident in the United Kingdom. Any person who is in any doubt as to his tax position or who is subject to tax in a jurisdiction other than the United Kingdom is strongly advised to consult their own professional adviser.**

## **9. Working Capital**

In the opinion of the Directors, having made due and careful enquiries and taking account of the net proceeds of the Placing, the working capital available to the Group will, from the date of Admission, be sufficient for its present requirements, that is for at least twelve months following Admission.

## **10. Litigation**

No member of the Group has engaged in, nor is currently engaged in any legal or arbitration proceedings which may have or have had during the twelve months preceding the date of this document a significant effect on its financial position nor, so far as the Directors are aware, are any such proceedings pending or threatened against or being brought by any member of the Group.

## **11. General**

- 11.1 The Group's existing patent applications in relation to the Ultrabite product and the CEFAS intellectual property (in respect of which patent applications are pending and are licensed to the Company under the terms of the CEFAS Agreement) are considered to be of fundamental importance to the Group's business.
- 11.2 The aggregate expenses of the Placing and Admission including commissions of approximately £90,000 are estimated at £400,000 excluding VAT (all of which are payable by the Company).

- 11.3 The minimum amount which, in the opinion of the Directors, must be raised under the Placing to provide the sums required in respect of the matters specified in Schedule 1 of the POS Regulations is £2,215,990, divided as follows:
- 11.3.1 the purchase price of any property: £Nil
  - 11.3.2 preliminary expenses and expenses of the Placing: £400,000
  - 11.3.3 repayment of money borrowed in respect of 11.3.1 and 11.3.2 above: £Nil
  - 11.3.4 working capital: £1,815,990
- 11.4 Except for fees payable to the professional advisers whose names are set out on page 3, payments to trade suppliers and employees and the fees payable to Smith's Corporate Advisory Ltd. details of which are summarised in paragraph 7.6 above, no person has received directly or indirectly, from the Company within 12 months preceding the date of this document or entered into contractual arrangements (not otherwise disclosed in this document) to receive, directly or indirectly, from the Company on or after Admission, fees totalling £10,000 or more or securities in the Company with a value of £10,000 or more, calculated by reference to the Placing Price, or any other benefit with a value of £10,000 or more at the date of Admission.
- 11.5 Save as disclosed in this document, there has been no significant change in the financial or trading position of the Group since 31 December 2004, the date to which its most recent audited accounts have been drawn up. The accounting reference date of the Company is 31 December. There are no significant trends concerning the development of the Group's business since 31 December 2004 which is the date to which the most recent audited results of the Group have been prepared.
- 11.6 The financial information set out in this document does not constitute statutory accounts within the meaning of section 240 of the Act. Statutory accounts have not been delivered to the registrar of companies for the periods ended 31 December 2004. Auditors' reports in respect of each statutory accounts have been made under section 235 of the Act and each such report was an unqualified report and did not contain any statement under section 237(2) or (3) of the Act.
- 11.7 The period within which placing participations may be accepted pursuant to the Placing and arrangements for the payment and holding of subscription monies pending Admission are set out in the Placing Agreement and in the placing letters sent to prospective placees.
- The Placing Shares are not being offered generally and no applications have or will be accepted other than under the terms of Placing Agreement and the placing letters. All the Placing Shares have been conditionally placed. The Placing is not being guaranteed or underwritten by any person.
- 11.8 Share certificates representing the Placing Shares are expected to be dispatched to holders who do not wish to receive their Placing Shares in uncertificated form, by post and at their own risk within five business days of Admission. Temporary documents of title will not be issued. Pending the dispatch of definitive share certificates (if applicable), instruments of transfers will be certified against the register of members of the Company.
- 11.9 It is expected that the Placing Shares will be enabled for settlement in CREST following Admission. Stock accounts of persons who elect to receive their Placing Shares in uncertificated form through the CREST system are expected to be credited on 30 June 2005.
- 11.10 Grant Thornton UK LLP in their capacity as Reporting Accountants have given and have not withdrawn their written consent to the issue of this document with the inclusion of their report in Part III of this document and the references to their report and to their name in the form and context in which they appear.
- 11.11 Grant Thornton Corporate Finance, J. M. Finn and CEFAS have each given and have not withdrawn their written consent to the issue of this document with the references to them in the form and context in which such references are included.
- 11.12 The Placing Price represents a premium of 6 pence over the nominal value of 1 penny per Ordinary Share.
- 11.13 The Ordinary Shares are in registered form. No temporary documents of title will be issued.

11.14 The principal activities of the Company are as described in Part I of this document. Save as disclosed in Part I of this document there are no exceptional factors which have influenced the Company's activities.

## **12. Documents Available for Inspection**

Copies of the following documents may be inspected at the offices of Lawrence Graham LLP, 190 Strand, London WC2R 1JN during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) for a period of 14 days following the date of this document:

- 12.1 the Memorandum and Articles of Association of the Company;
- 12.2 the audited consolidated accounts of the Company and its subsidiaries for the three years ended 31 December 2004;
- 12.3 the Accountants' Report set out in Part III of this document;
- 12.4 the service agreements and letter(s) of appointment referred to in paragraph 6 above;
- 12.5 the rules of the Kiotech EMI Scheme referred to in paragraph 4 above;
- 12.6 the material contracts referred to in paragraph 7 above; and
- 12.7 the consent letters referred to in paragraphs 11.10 and 11.11 above.

## **13. Availability of Documents**

Copies of this document will be available free of charge to the public at the offices of the Company and from Grant Thornton Corporate Finance, Grant Thornton House, Melton Street, London NW1 2EP during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) for a period of one month from the date of this document.

Dated: 24 June 2005



