kiotech

Kiotech International plc
Annual Report and Accounts
for the year ended 31 December 2010

Kiotech International plc supplies natural high performance feed additives to enhance growth, health and sustainability in agriculture and aquaculture.

The Group significantly increased its sales, profit and underlying earnings[2] per share over those of the previous year and also largely completed the integration of the Optivite Group.

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Highlights

Financial highlights

- 146% increase in underlying profit before tax and exceptional items[1] to £1.9m (2009: £0.8m).
- 58% increase in underlying earnings per share[2] to 7.27p (2009: 4.60p).
- Sales advance to £21.6m (2009: £11.0m).
- Cash balance of £3.5m at 31 December 2010 (2009: £5.0m).
- 74% increase in the proposed final dividend to 2.00p per share (2009: 1.15p).

Operational highlights

- Integration of Optivite largely complete with planned benefits being realised earlier than anticipated.
- Good performance from our international agriculture division.
- Purchase of Manton Wood production and head office site completed for £1.5m.

1 Underlying profit before tax and exceptional items comprises profit before tax of £1.5m (2009: £1.4m) adjusted for closure and restructuring costs of £0.3m (2009: £nil), gains on sale of intellectual property of £nil (2009: £0.7m) and share-based payment expense of £0.1m (2009: £0.03m).

2 Underlying earnings per share represents profit for the year before exceptional items and prior year tax adjustments divided by the weighted average number of shares in issue.

Chairman's statement

I am pleased to report a very successful year for the Group, enhanced by the completion of the majority of the integration projects following the acquisition of Optivite in September 2009. The Group is now well placed to build on its trading brands, supplying natural animal feed additives for global agricultural markets with specialty products, which improve the health and output of animals, thereby increasing profits for the farmer.

The balance sheet remains strong with good cash generation and management's focus is to develop the business in international markets through organic growth and suitable acquisitions which fit well with our strategy.

Financial review

Total underlying profit before tax and exceptional items[1] more than doubled to £1.877 million (2009: £0.764 million) from total revenues of £21.565 million (2009: £10.955 million). This outturn was boosted by a maiden full year contribution from Optivite coupled with organic growth (2009: 3 months contribution).

Profit before tax of £1.517 million (2009: £1.409 million) includes exceptional costs of £0.261 million relating to the restructuring of the Group and site closures. The previous year's result was boosted by an exceptional profit of £0.675 million arising from the sale of the Ultrabite sports fishing brand.

Underlying earnings per share[2] increased 58% to 7.27 pence per share (2009: 4.60 pence per share) and diluted underlying earnings per share rose 59% to 7.20 pence per share (2009: 4.53 pence per share).

The Board is delighted to declare a final dividend of 2.00 pence per share, an increase of 74% over the previous year's final dividend of 1.15 pence. Shareholder approval will be sought at the Annual General Meeting, to be held on 30 June 2011, to pay the final dividend on 29 July 2011 to shareholders on the register on 8 July 2011.

In October 2010 we completed the acquisition of a long leasehold interest in Optivite's Manton Wood production and head office site for £1.532 million including costs. The premises comprise the main production facilities for the Group's feed additive business and its administrative and finance functions have been substantially centralised on the site. The acquisition provides security of tenure from which to make long term investment decisions and is earnings enhancing. Further expenditure of £0.125 million has been incurred in the latter part of 2010 and early 2011 on extending the premises and new production facilities costing £0.190 million will be completed in 2011.

The balance sheet remains strong and debt free with a year-end cash balance of £3.531 million (2009: £5.015 million). It is expected that these funds will be used to invest in the expansion of the business through appropriate acquisitions.

On 1 October 2010 the Company consolidated its share capital on the basis of one ordinary share for every 23 ordinary shares. The Directors believe that the consolidation was desirable with a view to achieving a higher market price per share and reducing the significance of the bid-offer spread. Accordingly all relevant prior year numbers have been restated.

Optivite integration

As previously reported, production of our feed additive products has now been consolidated at Manton Wood. This plant has almost trebled its production throughput, with the additional Agil volume and growth from our international operations. We have also recently commissioned a third production line at Manton Wood, which has enabled us to transfer our omega-3 supplements from Optivite's North Scarle site, as well as providing additional capacity for our acid product range. The North Scarle site has just been closed leaving the Group operating from two production sites: Manton Wood for the functional feed additive business and Boroughbridge, in North Yorkshire, where Vitrition, our organic feed business is located.

The office extension at Manton Wood was completed in November, when the Optivite International team transferred from their leased offices. We continue to occupy Agil's offices at Aldermaston in Berkshire, where a number of administrators continue to support the Agil export business. It is our intention to transfer these functions to Manton Wood in the coming months and in due course close and sell the Aldermaston office.

Optivite's UK business has a high proportion of low margin products which were either sold on a resale basis or manufactured at the North Scarle plant and supplied to price sensitive markets. The value-added products manufactured at this site have now been transferred to Manton Wood, where consolidation will help to improve their margins. The manufacture of some low margin commodity products has been outsourced and we have exited from others.

Following the sales and production consolidation, overall UK sales have declined but profitability is expected to improve as the sales team focus on selling higher margin products to customers who value our more sophisticated and in-house designed ranges, which improve both the health and output of animals.

Operations — International agriculture

The Agil core business delivered another solid performance. The international division, operating under the Optivite and Kiotechagil brands, continued to make progress during the year. Of the 61 countries supplied, there were particularly strong performances in Argentina, Bangladesh, Japan, Korea, Malaysia, Mexico and Turkey. In 2009 a major Chilean integrator bought significant volumes of Salkil, Kiotechagil's leading acidifier product. Sales were disrupted by the earthquake in early 2010, however, we have recently won back some of this business with Optivite's Salgard brand, which demonstrates the value of operating more than one trading brand.

The main focus of the international sales team is to continue to introduce a number of new products to our distributors around the world. Malaysia demonstrated the potential of Agil's Neutox, our new feed safety product, which achieved significant sales growth in that country. Other new products being launched include a new range of enzymes and omega-3 supplements; the latter enhancing fertility, viability of young animals, growth rate and also increase the omega-3 content of meat and eggs. Our omega-3 supplements range is creating considerable interest in developing countries such as China where human health, especially in children, is a key factor in household purchasing decisions.

In China and Brazil we are starting to make inroads into the larger meat producers. The Chinese agricultural market was weak in the first half of the year, owing to a number of infectious disease outbreaks and a downturn in consumption, which led to lower pig prices. However, the second half saw an improvement, which has continued into 2011.

Genex®, an Optivite registered performance enhancing acid and essential oil combination, is currently under trial with a number of major pig producers in China. We are also supplying a number of smaller customers in that country through our local distribution channel with a range of products. In Brazil, we are now selling our acidifier products to some of the major integrators and we anticipate volumes to grow as our products gain wider use.

Operations — UK agriculture

Our UK agriculture business was re-structured during the year resulting in the formation of a new sales team. Sales are now focused on our higher margin feed additive products to the major integrators, vitamin and mineral premixers, and the pig and poultry home-mix segment. It is still early days in raising the profitability of our UK division as customers tend to spend time assessing and trialling our products before incorporating them into their feeding regime. However, the team has been making progress and we are confident we have the products and the people to improve our performance in the UK.

Vitrition, our organic feed brand, had a solid year with the focus on widening margins rather than chasing volume. Vitrition accounts for around 17 per cent of total group turnover, and the key to improving profitability in its market is to ensure raw materials are bought well and that any price increases are quickly passed on through selling prices. The well publicised grain price inflation experienced at the end of 2010 and running into 2011 has meant the Vitrition team is focused on ensuring our margins are maintained. We anticipate that more stringent EU legislation, relating to the proportion of use of solely organic raw materials in feed, coming into force over the next 12 months, will favour Vitrition, owing to its dedicated organic feed content, mill and formulations. We wait to see how this legislation will influence the decisions of our competitors in their commitment to this niche market.

Operations — Aquaculture

Our Head of Aquaculture, based in Thailand, has been working with a number of farmers and hatcheries in the region on Shrimp, Tilapia and Asian Sea Bass species. The product technology has been well received although, as expected, trial data is mixed, reflecting the inherent nature of trialling at fish farm level, where disease and events such as flooding can undermine results. In addition there is a learning curve for local farmers as they understand how to use Aquatice® effectively. This process is continuing and we are about to start trials with one of South East Asia's largest feed mill and farm groups. Furthermore, we are continuing to work with a major multi-national whose aquaculture team understands the potential of Aquatice®, and are continuing to test the product to assess its scope. Aquatice® is a unique technology and requires focused sales support in order for it to gain acceptance in the aquaculture industry. We are conscious that it may be some time before we

Chairman's statement continued

generate significant sales from this technology but we will continue to work with key partners to achieve this.

Board roles and responsibilities

Our strategy is to position the Company to benefit from the increasing demand for meat protein across both the developed and developing world economies by supplying meat producers with innovative natural feed additive solutions. Management believe the best way to achieve this, is to build a group which goes to market through a series of individual trading brands supported by a central finance, production and research and development infrastructure. Following the success of the Optivite acquisition and subsequent integration we now consider it appropriate to speed up our acquisition process by redefining roles and responsibilities at Board level.

Richard Edwards, who has been Chief Executive since November 2006, becomes Executive Vice-Chairman and will be responsible for implementing our acquisition strategy. He will also retain responsibility for Aquatice® to ensure continuity of its commercial development.

David Bullen, currently Chief Operating Officer, will become Chief Executive, responsible for executive management of the Kiotech Group. David has played a key role in managing the successful integration of Optivite, and has a clear understanding of the combined business.

These appointments take effect immediately.

People

I would like to thank all staff for their hard work and commitment during 2010. A significant amount was achieved in integrating the two companies ahead of the acquisition timetable, which is commendable and reflects the teamwork and quality of our people.

"We are continuing our search to identify suitable acquisitions, at the right price, which offer both strategic and commercial benefits to the Group."

Outlook

The Group has made a solid start to the year, with further sales growth in our international division. Management's focus is to capture the cross-selling opportunities between the Optivite and Kiotechagil brands as well as launch a number of new product ideas across the Group. Our territory expansion initiatives will concentrate on China and Brazil which between them account for over 40 per cent of world pig and poultry meat production.

We are continuing our search to identify suitable acquisitions, at the right price, which offer both strategic and commercial benefits to the Group.

Richard S Rose
Chairman
25 May 2011

Directors' report

The directors present their annual report and audited financial statements for the year ended 31 December 2010.

Directors

The directors during the year under review and up to the date of signing the financial statements were:

Richard Rose
Richard Edwards
Peter Lawrence
Richard Scragg
David Bullen
Karen Prior
Mark Nicholls (retired 26 April 2010)

Principal activities

The principal activities of the Group and Company in the year under review were those of the manufacture and supply of animal feed additives and the commercial development of biochemical stimulants for aquaculture.

Results and dividends

The consolidated income statement for the year is set out on page 10.

The profit for the year before tax was £1.517m (2009: £1.409m). The directors propose a final dividend of 2.00p per share (2009: 1.15p).

Substantial shareholdings

At 11 May 2011, the Company had been notified of the following holdings of 3 per cent or more of its issued share capital.

	Ordinary shares	per cent held
ISIS EP LLP	2,898,576	16.1%
Amati Global Investors	2,457,601	13.6%
Unicorn Asset Management	2,257,986	12.5%
Artemis Investment Management	879,917	4.9%
AXA Framlington Investment Management	842,803	4.7%
Williams de Broë	736,256	4.1%

Group research and development activities

The Group is continually researching into and developing new products and markets. Details of expenditure incurred and written off during the year are shown in the notes to the financial statements.

Review of the business and future developments

A full review of the year, together with an indication of future developments, is given in the Chairman's statement on pages 2 to 4.

Principal risks and uncertainties

The directors present below their review of the principal risks and uncertainties facing the business. If any of the following risks materialise, the Company's business, financial condition, prospects and share price could be materially and adversely affected.

The directors consider the following risks along with specific financial risks outlined in Note 2.18 to the financial statements, are the most significant but not necessarily the only ones associated with the Company and its businesses.

- **Competition**

  The Group operates in competitive global markets and there are no assurances that the Group's competitiveness will improve or that it will win any additional market share from any of its competitors or maintain existing market shares. We review our pricing and take action to control our cost base to ensure that we remain as competitive as possible and protect our margins. Failure to do this may result in materially lower margins and loss of market share.

- **Dependence on key customers**

  The Group is dependent on a number of customers and distributors in each of the territories it sells to. The loss of one or more of its key customers could result in lower than expected sales and have a significant impact on the scale of its operations. The Group seeks to minimise reliance on key territories and individual customers and distributors.

- **Prices of raw materials**

  The Group's profitability may be reduced due to increases in the price of raw materials and commodities, which can experience price volatility, caused by the price of oil, demand and specific commodity market and currency fluctuations. In mitigation the Group seeks to pass on increased costs to its customers and a number of suppliers are used in order to secure the best prices and there is close monitoring of margins with individual customers.

Directors' report continued

Key performance indicators

The key performance indicators ("KPIs") for the Group are those that communicate the financial performance and strength of the Group, as a whole, to shareholders. In addition, other key non-financial performance indicators are also used by management in running and assessing the performance of the individual businesses within the Group. A summary of the KPIs is as follows:

	2010 £000	2009 £000
Financial		
Revenue	**21,565**	10,955
Gross profit	**5,947**	3,132
Underlying profit before tax, exceptional items and share-based payments	**1,877**	764
Non-financial		
Health and safety — major accidents reportable to the Board in the year	**nil**	nil

The Group also regards the on-going achievement of product registrations and quality assurance accreditations as a major KPI.

Directors' interests

The directors' interests in the shares of the Company were as stated below:

	Ordinary shares of 23p each	
	31 Dec 2010	31 Dec 2009 as restated (or date of appointment)
R S Rose	**31,057**	31,057
R P Edwards	**32,681**	32,681
P A Lawrence	**27,950**	27,950
R H Scragg	**288,588**	288,588
D M A Bullen	**—**	—
K L Prior	**9,780**	—
M R Nicholls	**—**	3,105

Directors' remuneration

	Emoluments and compensation **2010** **£000**	Post-employment benefits **2010** **£000**
R S Rose	**22**	**—**
R P Edwards	**232**	**37**
P A Lawrence	**26**	**—**
R H Scragg	**113**	**6**
D M A Bullen	**184**	**6**
K L Prior	**175**	**5**
M R Nicholls	**107**	**—**

Emoluments and compensation arising during the year is shown in the table above and includes amounts paid to third parties totalling £134,000 and an apportionment of share-based payment charges totalling £78,000.

Emoluments payable to the highest paid director are shown in the table above (2009: £203,000).

Under the Group's enterprise management incentive scheme and unapproved share scheme the following directors have the right to acquire Ordinary shares of 23p each as follows:

	Option price (pence per share)	**31 Dec 2010**	31 Dec 2009 as restated
R S Rose	161.00	**21,739**	21,739
	115.00	**21,739**	21,739
R P Edwards	69.00	**620,736**	272,910
	31.74	**108,694**	108,694
P A Lawrence	169.74	**21,739**	21,739
	115.00	**21,739**	21,739
R H Scragg	86.25	**21,739**	—
D M A Bullen	80.50	**21,739**	21,739
	31.74	**32,608**	32,608
	69.00	**260,869**	260,869
	86.25	**86,956**	—
K L Prior	69.00	**130,434**	130,434
	86.25	**86,956**	—
M R Nicholls	166.75	**—**	10,869
	115.00	**—**	21,739
	31.74	**—**	32,608
	69.00	**—**	32,608

On 1 October 2010 the Company undertook a 1 for 23 share consolidation. Accordingly, all prior year interests and options have been restated.

Creditors payment policy

The Company agrees terms and conditions for its business transactions with its suppliers and payments are made on these terms, subject to the terms and conditions being met by the suppliers. Trade creditors at the year-end amounted to 60 days (2009: 62 days) of average supplies for the year against terms agreed with our suppliers.

Internal financial control

The board of directors is responsible for the Group's system of internal financial control. Internal control systems are designed to meet the particular needs of the companies concerned and the risks to which they are exposed. This provides reasonable, but not absolute, assurance against material misstatement or loss. Strict financial and other controls are exercised by the Group over its subsidiary companies by day-to-day supervision of the businesses by the directors.

Corporate governance

The Company's shares are traded on the Alternative Investment Market of the London Stock Exchange and the Company is therefore not required to report on compliance with the Combined Code. The directors support the Combined Code and are implementing many of the recommendations which are relevant to a business the size of Kiotech International plc.

Charitable and political contributions

There were no charitable donations made in the year (2009: £nil). There were no donations made to political parties (2009: £nil).

Stockbrokers

FinnCap is the Company's stockbroker and nominated adviser.

The closing share price on 31 December 2010 was 88.3p per 23p nominal share (2009: 3.62p per 1p nominal share).

Independent auditors

A resolution proposing that PricewaterhouseCoopers LLP be reappointed will be put to the Annual General Meeting.

Indemnities

By virtue of, and subject to, Article 172 of the current Articles of Association of the Company, the Company has granted an indemnity to every director, alternate director, Secretary or other officer of the Company. Such provisions remain in force at the date of this report. The Group has arranged appropriate insurance cover for any legal action against the directors and officers.

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations. Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Group and Parent Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

Directors' report continued

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Statement of disclosure to auditors

So far as the directors are aware;

(a) there is no relevant audit information of which the Group's auditors are unaware, and

(b) they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

On behalf of the Board

Karen L Prior
Company Secretary
25 May 2011

Independent auditors' report to the members of Kiotech International plc

We have audited the Group and Parent Company financial statements (the "financial statements") of Kiotech International plc for the year ended 31 December 2010 which comprise the Consolidated income statement, the Consolidated statement of comprehensive income, the Consolidated and parent company balance sheets, the Consolidated and parent company statements of changes in equity, the Consolidated and parent company statements of cash flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on pages 7 and 8, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and Parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2010 and of the Group's profit and Group's and Parent Company's cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Ian Morrison (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Sheffield
25 May 2011

Consolidated income statement
for the year ended 31 December 2010

	Notes	2010 £000	2009 £000
Revenue	3	**21,565**	10,955
Cost of sales		**(15,618)**	(7,823)
Gross profit		**5,947**	3,132
Administrative expenses		**(4,225)**	(2,429)
Closure and restructuring costs	5	**(261)**	—
Gains on sale of intellectual property	6	**—**	675
Operating profit		**1,461**	1,378
Finance income	9	**56**	31
Profit before income tax		**1,517**	1,409
Income tax expense	12	**(229)**	(194)
Profit for the year from continuing operations		**1,288**	1,215
Profit for the year attributable to :			
Owners of the parent		**1,282**	1,211
Non-controlling interest		**6**	4
Profit for the year		**1,288**	1,215

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

			As restated
Basic earnings per share (pence)	10	**7.01**	9.52
Diluted earnings per share (pence)	10	**6.94**	9.37

The Company has elected to take the exemption under section 408 of the Companies Act 2006 to not present the Parent Company profit and loss account. The profit for the Parent Company for the year was £1,334,000 (2009: £1,148,000).

Consolidated statement of comprehensive income
for the year ended 31 December 2010

	2010 £000	2009 £000
Profit for the year	**1,288**	1,215
Currency translation difference	**5**	1
Total comprehensive income for the year	**1,293**	1,216
Attributable to owners of the parent	**1,287**	1,212
Non-controlling interest	**6**	4
Total comprehensive income for the year	**1,293**	1,216

The notes on pages 14 to 36 form part of these financial statements.

Consolidated and parent company balance sheets as at 31 December 2010

		Group		Company	
		2010	2009	**2010**	2009
	Notes	**£000**	£000	**£000**	£000
Non current assets					
Intangible assets	13	**7,007**	6,772	**7,007**	6,772
Property, plant and equipment	14	**2,619**	663	**2,609**	652
Investments in subsidiaries	15	**—**	—	**233**	2,624
Deferred income tax assets	21	**289**	—	**289**	—
		9,915	7,435	**10,138**	10,048
Current assets					
Inventories	16	**1,200**	1,291	**1,042**	1,230
Trade and other receivables	17	**5,284**	4,911	**5,297**	4,847
Cash and cash equivalents	18	**3,531**	5,015	**3,357**	4,901
		10,015	11,217	**9,696**	10,978
Total assets		**19,930**	18,652	**19,834**	21,026
Equity and liabilities					
Called up share capital	25	**4,209**	4,209	**4,209**	4,209
Share premium account		**2,957**	2,957	**2,957**	2,957
Other reserves	27	**613**	508	**607**	507
Special reserve		**4,441**	4,441	**4,441**	4,441
Retained earnings	26	**2,517**	1,445	**2,602**	1,478
		14,737	13,560	**14,816**	13,592
Non-controlling interest		**51**	45	**—**	—
Total equity		**14,788**	13,605	**14,816**	13,592
Non-current liabilities					
Borrowings	20	**3**	30	**3**	30
Deferred income tax liabilities	21	**944**	493	**944**	493
		947	523	**947**	523
Current liabilities					
Trade and other payables	19	**3,907**	4,109	**3,789**	6,487
Corporation tax		**288**	415	**282**	424
		4,195	4,524	**4,071**	6,911
Total liabilities		**5,142**	5,047	**5,018**	7,434
Total equity and liabilities		**19,930**	18,652	**19,834**	21,026

The notes on pages 14 to 36 form part of these financial statements.

Approved by the Board and authorised for issue on 25 May 2011

Richard P Edwards
Director

Company Number: 03345857

Consolidated and parent company statements of changes in equity for the year ended 31 December 2010

Group	Share capital £000	Share premium account £000	Special reserve £000	Other reserves £000	Retained earnings £000	Non-controlling interest £000	Total equity £000
Balance at 1 January 2009	2,511	—	4,441	249	335	—	7,536
Profit	—	—	—	—	1,211	4	1,215
Currency translation differences	—	—	—	1	—	—	1
Total comprehensive income for the year	—	—	—	1	1,211	4	1,216
Transactions with owners							
Issue of shares	1,698	2,957	—	228	—	—	4,883
Share-based payment adjustments	—	—	—	30	—	—	30
Dividends relating to 2008	—	—	—	—	(101)	—	(101)
Transactions with owners	1,698	2,957	—	258	(101)	—	4,812
Non-controlling interests arising on acquisition of subsidiary	—	—	—	—	—	41	41
Balance at 31 December 2009	**4,209**	**2,957**	**4,441**	**508**	**1,445**	**45**	**13,605**
Profit	—	—	—	—	1,282	6	1,288
Currency translation differences	—	—	—	5	—	—	5
Total comprehensive income for the year	—	—	—	5	1,282	6	1,293
Transactions with owners							
Share-based payment adjustments	—	—	—	100	—	—	100
Dividends relating to 2009	—	—	—	—	(210)	—	(210)
Transactions with owners	—	—	—	100	(210)	—	(110)
Balance at 31 December 2010	**4,209**	**2,957**	**4,441**	**613**	**2,517**	**51**	**14,788**

Company	Share capital £000	Share premium account £000	Special reserve £000	Other reserves £000	Retained earnings £000	Total equity £000
Balance at 1 January 2009	2,511	—	4,441	249	335	7,536
Profit	—	—	—	—	1,148	1,148
Total comprehensive income for the year	—	—	—	—	1,148	1,148
Transactions with owners						
Issue of shares	1,698	2,957	—	228	—	4,883
Share-based payment adjustments	—	—	—	30	—	30
Dividends relating to 2008	—	—	—	—	(101)	(101)
Arising on hive up of subsidiaries	—	—	—	—	96	96
Transactions with owners	1,698	2,957	—	258	(5)	4,908
Balance at 31 December 2009	**4,209**	**2,957**	**4,441**	**507**	**1,478**	**13,592**
Profit	—	—	—	—	1,334	1,334
Total comprehensive income for the year	—	—	—	—	1,334	1,334
Transactions with owners						
Share-based payment adjustments	—	—	—	100	—	100
Dividends relating to 2009	—	—	—	—	(210)	(210)
Transactions with owners	—	—	—	100	(210)	(110)
Balance at 31 December 2010	**4,209**	**2,957**	**4,441**	**607**	**2,602**	**14,816**

The notes on pages 14 to 36 form part of these financial statements.

Consolidated and parent company statements of cash flows for the year ended 31 December 2010

	Group		Company	
	2010	2009	**2010**	2009
	£000	£000	**£000**	£000
Cash generated from operating activities	**1,211**	2,421	**(1,236)**	2,379
Interest paid	**—**	(1)	**—**	—
Income tax paid	**(197)**	(340)	**(203)**	(121)
Net cash generated from operating activities	**1,014**	2,080	**(1,439)**	2,258
Cash flows generated from investing activities				
Acquisition of subsidiary net of cash acquired	**—**	(3,127)	**—**	(3,972)
Cash acquired from subsidiaries hived up	**—**	—	**—**	517
Purchases of property, plant and equipment	**(2,071)**	(44)	**(2,069)**	(14)
Proceeds from disposal of property, plant and equipment	**10**	—	**10**	—
Payments to acquire intangible fixed assets	**(256)**	(226)	**(256)**	(226)
Interest received	**56**	31	**56**	31
Dividends received	**—**	—	**2,391**	—
Net cash used in investing activities	**(2,261)**	(3,366)	**132**	(3,664)
Cash flows from financing activities				
Proceeds from issuance of shares	**—**	4,541	**—**	4,541
Dividend paid to Company's shareholders	**(210)**	(101)	**(210)**	(101)
Repayment of borrowings	**(27)**	(7)	**(27)**	—
Net cash used in financing activities	**(237)**	4,433	**(237)**	4,440
Net (decrease)/increase in cash and cash equivalents	**(1,484)**	3,147	**(1,544)**	3,034
Cash and cash equivalents at the beginning of the year	**5,015**	1,868	**4,901**	1,867
Cash and cash equivalents at the end of the year	**3,531**	5,015	**3,357**	4,901

	Group		Company	
	2010	2009	**2010**	2009
Cash generated from operating activities	**£000**	£000	**£000**	£000
Profit before income tax	**1,517**	1,409	**1,556**	1,294
Adjustments for:				
Finance income	**(56)**	(31)	**(2,447)**	(31)
Depreciation and amortisation	**137**	82	**134**	14
Profit on disposal of plant and equipment	**(10)**	—	**(10)**	—
Share-based payments	**100**	30	**100**	30
Provision against investment in subsidiaries	**—**	—	**2,391**	—
Changes in working capital:				
Inventories	**91**	(183)	**188**	(9)
Trade and other receivables	**(373)**	350	**(450)**	713
Trade and other payables	**(195)**	764	**(2,698)**	368
Cash generated from operating activities	**1,211**	2,421	**(1,236)**	2,379

The notes on pages 14 to 36 form part of these financial statements.

Notes to the financial statements
for the year ended 31 December 2010

1 General information

Kiotech International plc ("the Company") and its subsidiaries (together "the Group") manufacture and supply products to enhance health, growth and sustainability in agriculture and aquaculture.

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

On 30 September 2009 the company acquired the Optivite group of companies and the results for these entities are included in these financial statements from 1 October 2009.

On 1 October 2010 the Company undertook a 1 for 23 share consolidation. Accordingly, all relevant prior year numbers have been restated.

2 Summary of significant accounting policies

2.1 Basis of preparation

The Group has presented its annual report and financial statements in accordance with International Financial Reporting Standards (IFRS), as endorsed by the European Union, IFRIC interpretations and the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements are prepared on a going concern basis under the historical cost convention.

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

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in a period of the revision and future periods if the revision affects both current and future periods.

The principal accounting policies of the Group are set out below, and have been applied consistently in dealing with items which are considered material in relation to the Group's financial statements.

2.2 Impact of accounting standards and interpretations

At the date of authorisation of these financial statements, the following standards and interpretations to existing standards are mandatory for the first time for the accounting period ended 31 December 2010:

		Effective from
IFRIC 9 and IAS 30 (amended 2009)	'Embedded Derivatives'	30 June 2009
IFRIC 15 (issued 2008)	'Agreements for Construction of Real Estate'	1 January 2010
IFRIC 16 (issued 2008)	'Hedges of a Net Investment in a Foreign Operation	1 July 2009
IFRIC 17 (issued 2008)	'Distributions of Non-cash Assets to Owners	1 July 2009
IFRIC 18 (issued 2009)	'Transfers of Assets from Customers'	1 July 2009
IAS 17 (amended)	'Leases'	1 January 2010
IAS 27 (revised 2008)	'Consolidated and Separate Financial Statements'	1 July 2009
IAS 39 (amended 2008)	'Financial Instruments: Recognition and Measurement: Eligible Hedged Items'	1 July 2009
IFRS 1 (amended 2008)	'First-time Adoption of IFRS'	1 July 2009
IFRS 1 (amended 2009)	'Additional Exemptions for First-time Adopters'	1 January 2010
IFRS 2 (amended 2009)	'Group Cash-settled Share-based Payment Transactions'	1 January 2010
IFRS 3 (revised 2008)	'Business Combinations'	1 July 2009

The adoption of these standards and interpretations has not had a significant impact on the Group.

2.2 Impact of accounting standards and interpretations continued

At the date of the authorisation of these financial statements, the following standards and interpretations were in issue but not yet effective.

		Effective from
IFRIC 14 (amended 2009)	'Prepayments of a Minimum Funding Requirement'	1 January 2011
IFRIC 19 (issued 2009)	'Extinguishing Financial Liabilities with Equity Instruments'	1 July 2010
IAS 12 (amended 2010)	'Deferred Tax: Recovery of Underlying Assets'	1 January 2012*
IAS 24 (revised 2009)	'Related Party Disclosures'	1 January 2011
IAS 32 (amended 2009)	'Classification of Rights Issue'	1 February 2010
IFRS 1 (amended 2010)	'Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters'	1 July 2010
IFRS 1 (amended 2010)	'Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters'	1 July 2011*
IFRS 7 (amended 2010)	'Financial Instruments: Disclosures'	1 July 2011*
IFRS 9 (issued 2009)	'Financial Instruments'	1 January 2013*

* Not yet endorsed by the EU.

A review of the impact of these standards, amendments and interpretations continues. At this stage the directors do not believe that they will give rise to any significant financial impact.

In 2010, the Group did not early adopt any new or amended standards and does not plan to early adopt any of the standards issued but not yet effective.

2.3 Basis of consolidation

The consolidated financial statements comprise the accounts of the Company and its subsidiaries drawn up to 31 December 2010.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured, as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value the difference is recognised directly in the income statement.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated on consolidation.

2.4 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods in the ordinary course of the Group's activities. Revenue is shown net of value added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue on despatch of goods to the customer.

Notes to the financial statements continued
for the year ended 31 December 2010

2.5 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting to the chief operating decision-maker. The chief operating decision-maker who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board.

2.6 Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into Pounds Sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. All differences are included in the profit or loss for the period.

(a) Functional and presentational currency

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

(b) Transactions and balances

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

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised as part of the fair value gain or loss.

(c) Group companies

The results and financial position of all Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

— assets and liabilities for each balance sheet presented are translated at the closing exchange rate at the date of the balance sheet;

— income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case the income and expenses are translated at the rate on the dates of the transaction); and

— all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is partially disposed of or sold, exchange differences that were recognised in equity are recognised in the income statement as part of the gain or loss on sale. Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing exchange rate.

2.7 Intangible assets

(a) Patents and trademarks

Separately acquired patents and trademarks are shown at historical cost. Patents and trademarks have finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of patents and trademarks over their estimated useful lives of 5 to 20 years.

(b) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the identifiable net assets acquired. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Goodwill is allocated to the appropriate cash-generating unit for the purpose of impairment testing. Any impairment is recognised immediately through the income statement and is not subsequently reversed.

(c) Development costs

Development costs are recognised if it is probable that there will be future economic benefits attributable to the asset, the cost of the asset can be measured reliably, the asset is separately identifiable and there is control over the use of the asset. The assets are amortised when available for use on a straight-line basis over the period over which the Group expects to benefit from these assets. Research expenditure is written off to the profit and loss account in the year in which it is incurred.

(d) Brands

Brand names acquired in a business combination are recognised at fair value based on an expected royalty value at the acquisition date. Brand names are deemed to have an indefinite useful life and are not depreciated. However, they are allocated to appropriate cash-generating units and subject to impairment testing on an annual basis. Any impairment is recognised immediately through the income statement and is not subsequently reversed.

(e) Customer relationships

Customer relationships acquired in a business combination are recognised at fair value at the acquisition date. Customer relationships are deemed to have a finite useful life and are carried at fair value less amortisation. Amortisation is calculated using the straight-line method over the expected useful life of 10 years.

2.8 Impairment of non-financial assets

The carrying amounts of the Group's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. The recoverable amount is the higher of its net selling price and its value in use. For intangible assets that are not yet available for use, goodwill or intangible assets with an indefinite useful life, an impairment test is performed at each balance sheet date.

In assessing value in use, the expected future cash flows from the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is recognised in the income statement whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

A previously recognised impairment loss is reversed if the recoverable amount increases as a result of a change in the estimates used to determine the recoverable amount, but not to an amount higher than the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognised in prior years. For goodwill, a recognised impairment loss is not reversed.

2.9 Investments

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

2.10 Property, plant and equipment

Non-current assets are stated at cost less depreciation. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. Land is not depreciated. Depreciation is provided at rates calculated to write off the cost less estimated residual value of each asset over its expected useful life, as follows:

Buildings	50 years or period of lease if shorter
Plant and machinery	4–10 years
Fixtures, fittings and equipment	3–10 years
Vehicles	3–5 years

Notes to the financial statements continued
for the year ended 31 December 2010

2.11 Inventories

Inventories are valued at the lower of cost and net realisable value. Cost is determined using the first-in, first-out method. The cost of finished goods comprises raw materials, direct labour, other direct costs and related production overheads. Net realisable value is the estimated selling price in the ordinary course of business.

2.12 Trade receivables

Trade receivables are recognised and carried at original invoice amounts less an allowance for any amount estimated to be uncollectable.

2.13 Leasing and hire purchase

The Group has entered into hire purchase contracts and leases certain property, plant and equipment.

Assets obtained under finance leases and hire purchase contracts, where the Group has substantially all the risks and rewards of ownership are capitalised as property, plant and equipment and depreciated over the shorter of the lease term and their useful lives. Obligations under such agreements are included in borrowings net of the finance charge allocated to future periods. The finance element of the rental payment is charged to the income statement so as to produce constant periodic rates of charge on the net obligations outstanding in each period.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

2.14 Taxation

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

Deferred income tax is recognised, using the full liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amount in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted, or substantially enacted, by the balance sheet date and are expected to apply when the related deferred tax asset is realised or deferred tax liability is settled. Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

2.15 Employee benefits

(a) Share-based payments

The group issues equity-settled share-based payments to certain employees which must be measured at fair value and recognised as an expense in the income statement with a corresponding increase in equity. The fair values of these payments are measured at the dates of grant using option pricing models, taking into account the terms and conditions upon which the awards are granted. The fair value is recognised over the period during which employees become unconditionally entitled to the awards subject to the Group's estimate of the number of awards which will lapse, either due to employees leaving the Group prior to vesting or due to non-market based performance conditions not being met. Proceeds received on the exercise of share options are credited to share capital and share premium.

(b) Pension obligations

The Group operates a defined contribution pension scheme and contributes a percentage of salary to individual employee schemes. The pension expense represents contributions payable in the year.

2.16 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.17 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

2.18 Financial risk management

The Group is exposed to a number of financial risks, including credit risk, liquidity risk, market price risk and exchange rate risk.

(a) Credit Risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and deposits with financial institutions. The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The Group has an established credit policy under which each new customer is analysed for creditworthiness before the Group's payment and delivery terms and conditions are offered. Where possible, risk is minimised through settlement via letters of credit and purchase of credit insurance. The Group's investment policy restricts the investment of surplus cash to interest bearing deposits with banks and building societies with high credit ratings.

(b) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or damage to the Group's reputation.

(c) Market price risk

Market price risk primarily comprises interest rate exposure risk on its investment income. The Group limits the amount of exposure by continually assessing the performance of these investments and maintaining flexibility to transfer to other investment vehicles as appropriate.

(d) Exchange rate risk

The Group's principal functional currency is Pounds Sterling. However, during the year the Group had exposure to Euros and US Dollars. The Group's policy is to maintain natural hedges, where possible, by matching revenue and receipts with expenditure.

(e) Capital risk

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends payable to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

2.19 Critical accounting estimates and judgements

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are:

(a) Estimated impairment value of intangible assets

The Group tests annually whether intangible assets have suffered any impairment. Impairment provisions are recorded as applicable based on directors' estimates of recoverable values.

(b) Income taxes

The Group is subject to income taxes predominately in the United Kingdom but also in other jurisdictions. Significant estimates are required in determining the provision for income taxes. There are some transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated queries by the tax authorities based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different for the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Notes to the financial statements continued
for the year ended 31 December 2010

2.20 Cash and cash equivalents

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

3 Segment information

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

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

Management considers adjusted EBITDA to assess the performance of the operating segments, which comprises profit before interest, tax, depreciation and amortisation adjusted for share-based payments and exceptional items.

Inter-segment revenue is charged at prevailing market prices.

	UK and Eire £000	International £000	Total £000
Year ended 31 December 2010			
Total segmental revenue	9,300	12,686	**21,986**
Inter-segment revenue	—	(421)	**(421)**
Revenue from external customers	9,300	12,265	**21,565**
Adjusted EBITDA	243	1,716	**1,959**
Depreciation and amortisation	(99)	(38)	**(137)**
Income tax expense	(68)	(161)	**(229)**
Total assets	8,624	11,306	**19,930**
Total liabilities	(1,614)	(3,528)	**(5,142)**
Year ended 31 December 2009			
Total segmental revenue	3,762	7,644	11,406
Inter-segment revenue	(439)	(12)	(451)
Revenue from external customers	3,323	7,632	10,955
Adjusted EBITDA	95	720	815
Depreciation and amortisation	59	23	82
Income tax expense	(12)	(181)	(193)
Total assets	3,665	14,987	18,652
Total liabilities	(2,438)	(2,609)	(5,047)

The entity is domiciled in the UK.

The total of non-current assets other than financial instruments and deferred tax assets (there are no employment benefit assets and rights arising under insurance contracts) located in the UK is £9,616,000 (2009: £7,424,000) and the total of these non-current assets located in other countries is £10,000 (2009: £11,000).

3 **Segment information** continued

A reconciliation of adjusted EBITDA to profit before tax is provided as follows:

	2010 **£000**	2009 £000
Adjusted EBITDA for reportable segments	**1,959**	815
Depreciation, amortisation and impairment provisions	**(137)**	(82)
Share-based payment charges	**(100)**	(30)
Finance income	**56**	31
Closure and restructuring costs	**(261)**	—
Gains on sale of intellectual property	—	675
Profit before tax	**1,517**	1,409

4 Expenses by nature

	2010 **£000**	2009 £000
Changes in inventories of finished goods	**(72)**	392
Raw materials and consumables used	**13,337**	7,283
Employee expenses (note 8)	**3,349**	1,498
Research and development expenditure	**51**	75
Transportation expenses	**1,194**	679
Other operating expenses	**1,867**	—
Operating lease payments	**297**	103
Depreciation, amortisation and impairment charges	**137**	82
Share-based payment charges	**100**	30
(Profit)/loss on foreign exchange transactions	**(156)**	110
Total cost of sales, distribution and administrative expenses	**20,104**	10,252

5 Closure and restructuring costs

During 2010 the Group closed a number of administrative and production sites which resulted in costs associated with staff redundancies, removal costs, early termination costs and asset disposals.

6 Gain on sale of intellectual property

In 2009 the Company sold its intellectual property relating to the Ultrabite® sports fishing pheromone attractant brand and the associated rights under its license agreement with Cefas (Centre for the Environment, Fisheries and Aquaculture Science) whilst retaining its licensing rights for the technology to the global aquaculture and commercial fishing markets under the Aquatice® brand. This generated a gain after directly attributable expenses of £675,000.

7 Auditor remuneration

During the year the Group obtained the following services from the Company's auditor:

Group	**2010** **£000**	2009 £000
Fees payable to the Company's auditor for the audit of Parent Company and Consolidated financial statements	**23**	16
Fees payable to the Company's auditor for other services:		
The audit of the Company's subsidiaries pursuant to legislation	**—**	8
Tax services	**26**	5
Other advisory	**—**	3
	49	32

Notes to the financial statements continued
for the year ended 31 December 2010

8 Employees

Number of employees

The average monthly number of employees including directors during the year was:

	2010 Number	2009 Number
Group		
Production	**28**	6
Administration	**21**	12
Sales and Technical	**23**	6
Total average headcount	**72**	24
Company		
Production	**28**	—
Administration	**20**	8
Sales and Technical	**17**	4
Total average headcount	**65**	12

	2010 £000	2009 £000
Employment costs		
Group		
Wages and salaries	**2,910**	1,305
Social security costs	**297**	126
Other pension costs	**142**	67
Share-based payment charges	**100**	30
	3,449	1,528

9. Finance income

	2010 £000	2009 £000
Interest receivable on short-term bank deposits	**56**	31

10 Earnings per share

	2010	2009 As restated
Weighted average number of shares in issue (000's)	**18,300**	12,762
Adjusted for effects of dilutive potential ordinary shares (000's)	**173**	196
Weighted average number for diluted earnings per share (000's)	**18,473**	12,958
Profit attributable to equity holders of the company (£000's)	**1,282**	1,211
Basic earnings per share (pence)	**7.01**	9.52
Diluted earnings per share (pence)	**6.94**	9.37

	2010 £000	2009 £000
Underlying profit attributable to equity owners:		
Profit attributable to equity owners	**1,282**	1,211
Closure and restructuring costs (net of tax)	**187**	—
Gains on sale of intellectual property (net of tax)	**—**	(628)
Prior year tax adjustments	**(138)**	—
Underlying profit	**1,331**	583
Underlying earnings per share (pence)	**7.27**	4.60
Diluted underlying earnings per share (pence)	**7.20**	4.53

Earnings per share has been restated to take account of the 1 for 23 ordinary share consolidation.

11 Dividend payable

	2010 £000	2009 £000
2008 final dividend paid: 0.92p per 23p share (as restated)	**—**	101
2009 final dividend paid: 1.15p per 23p share (as restated)	**210**	—
	210	101

Dividends per share have been restated to take account of the 1 for 23 ordinary share consolidation.

Notes to the financial statements continued
for the year ended 31 December 2010

12 Income tax expenses

	2010 £000	2009 £000
Current tax		
Current tax on profits for the year	**288**	180
Adjustment for prior years	**(221)**	—
Total current tax	**67**	180
Deferred tax		
Origination and reversal of temporary differences	**79**	14
Adjustment for prior years	**83**	—
Total deferred tax (note 21)	**162**	14
Income tax expense	**229**	194

	2010 £000	2009 £000
Factors affecting the tax charge for the year		
Profit before tax	**1,517**	1,409
Tax at domestic rates applicable to profits in the respective countries	**425**	397
Tax effects of:		
Non deductible expenses	**27**	35
Capital allowances	**2**	(10)
Research and development tax credits	**(119)**	(142)
Exceptional gain of intellectual property not subject to tax	**—**	(83)
Prior year tax adjustments	**(138)**	—
Other tax adjustments	**32**	(3)
Tax charge	**229**	194

During the year the company reached agreement with HMRC in relation to the deductability of capitalised development costs and acquired goodwill, resulting in prior year tax adjustments.

13 Intangible assets

	Goodwill £000	Brands £000	Customer relationships £000	Patents and trademarks £000	Development costs £000	Total £000
Group and Company						
Cost						
As at 1 January 2009	3,552	—	—	46	811	4,409
Additions	—	—	—	—	226	226
Acquisition of subsidiaries (note 30)	592	1,501	176	—	—	2,269
As at 1 January 2010	4,144	1,501	176	46	1,037	6,904
Additions	—	—	—	13	243	256
As at 31 December 2010	**4,144**	**1,501**	**176**	**59**	**1,280**	**7,160**
Accumulated amortisation/impairment						
As at 1 January 2009	—	—	—	3	126	129
Charge for the year	—	—	—	2	—	2
As at 1 January 2010	—	—	—	5	126	131
Charge for the year	—	—	18	4	—	22
As at 31 December 2010	**—**	**—**	**18**	**9**	**126**	**153**
Net book value						
As at 31 December 2010	**4,144**	**1,501**	**158**	**50**	**1,154**	**7,007**
As at 31 December 2009	4,144	1,501	176	40	911	6,772
As at 1 January 2009	3,552	—	—	43	685	4,280

Goodwill is allocated to the Group's cash-generating units (CGU's) identified according to trading brand. The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond a five-year period are extrapolated using estimated growth rates of 1% per annum (2009: 1%).

The discount rate used of 12% (2009: 12%) is pre-tax and reflects specific risks relating to the operating segments.

Goodwill is allocated as follows:

At 31 December 2009 and 2010	£000
Acquisition of Kiotechagil operations	3,552
Acquisition of Optivite operations	592
Total goodwill	**4,144**

Brands relate to the fair value of the Optivite brands acquired in the year ended 31 December 2009. These are deemed to have an indefinite useful life due to the inherent intellectual property contained in the products, the longevity of the product lives and global market opportunities.

Amortisation of customer relationships and patents totalling £22,000 (2009: £2,000) is included in administrative expenses.

The carrying amount of development costs was reduced to its recoverable amount in previous years through recognition of an impairment provision. This provision was based on management forecasts of the remaining development costs and expected future economic benefits arising to the Group. Costs capitalised in the current year are in line with management forecasts of the expected remaining development costs hence no further impairment has been recognised.

Notes to the financial statements continued
for the year ended 31 December 2010

14 Property, plant and equipment

	Land and buildings £000	Plant and machinery £000	Fixtures, fittings and equipment £000	Total £000
Group				
Cost				
As at 1 January 2009	325	31	39	395
Additions	—	26	18	44
Acquisition of subsidiaries (note 30)	5	234	100	339
As at 1 January 2010	330	291	157	778
Additions	1,532	223	316	2,071
As at 31 December 2010	**1,862**	**514**	**473**	**2,849**
Depreciation				
As at 1 January 2009	7	12	16	35
Charge for the year	1	60	19	80
As at 1 January 2010	8	72	35	115
Charge for the year	1	48	66	115
As at 31 December 2010	**9**	**120**	**101**	**230**
Net book value				
As at 31 December 2010	**1,853**	**394**	**372**	**2,619**
As at 31 December 2009	322	219	122	663
As at 1 January 2009	318	19	23	360

Held within land and buildings is an amount of £700,000 (2009: £200,000) in respect of non-depreciable land.

Plant and machinery includes the following amounts held under hire purchase contracts.

	2010 £000	2009 £000
Cost-capitalised hire purchase contracts	**11**	80
Accumulated depreciation	**(3)**	(35)
Net book value	**8**	45

14 Property, plant and equipment continued

	Land and buildings £000	Plant and machinery £000	Fixtures, fittings and equipment £000	Total £000
Company				
Cost				
As at 1 January 2009	325	31	39	395
Additions	—	11	2	13
Acquisition of subsidiaries (note 30)	5	187	98	290
As at 1 January 2010	330	229	139	698
Reclassification	—	(17)	17	—
Additions	1,532	223	314	2,069
As at 31 December 2010	**1,862**	**435**	**470**	**2,767**
Depreciation				
As at 1 January 2009	7	12	16	35
Charge for the year	1	5	5	11
As at 1 January 2010	8	17	21	46
Reclassification	—	(3)	3	—
Charge for the year	1	46	65	112
As at 31 December 2010	**9**	**60**	**89**	**158**
Net book value				
As at 31 December 2010	**1,853**	**375**	**381**	**2,609**
As at 31 December 2009	322	212	118	652
As at 1 January 2009	318	19	23	360

Held within land and buildings is an amount of £700,000 (2009: £200,000) in respect of non-depreciable land.

15 Investment in subsidiaries

Company	Unlisted Investments £000
Cost	
As at 1 January 2009	1
Additions	4,314
Arising on hive up of subsidiary operations (note 30)	(1,690)
As at 1 January 2010 and at 31 December 2010	**2,625**
Provisions for diminution in value	
As at 1 January 2009	1
Charge for the year	—
As at 1 January 2010	1
Charge for the year	2,391
As at 31 December 2010	**2,392**
Net book value	
As at 31 December 2010	**233**
As at 31 December 2009	2,624
As at 1 January 2009	—

Notes to the financial statements continued
for the year ended 31 December 2010

15 Fixed asset investment continued

Holdings of more than 20 per cent

The Company holds more than 20 per cent of the share capital of the following companies:

Company	Country of registration or incorporation	Principal activity	% held	Share held class
Subsidiary undertakings				
Kiotech Limited	England and Wales	Dormant	100	Ordinary
Aquatice Limited	England and Wales	Dormant	100	Ordinary
Agil Limited	England and Wales	Dormant	100	Ordinary
Kiotechagil Limited	England and Wales	Dormant	100	Ordinary
Optivite Limited	England and Wales	Dormant	100	Ordinary
Optivite International Limited	England and Wales	Dormant	100	Ordinary
Kiotechagil (Shanghai) Agriculture Science and Technology Limited	China	Technology services	100	Ordinary
Optivite Animal Nutrition Private Limited	India	Technology services	100	Ordinary
Optivite Latinoamericana SA de CV	Mexico	Technology services	98	Ordinary
Optivite SA (Proprietary) Limited	South Africa	Technology services	60	Ordinary

16 Inventories

	Group		Company	
	2010	2009	**2010**	2009
	£000	£000	**£000**	£000
Raw materials and consumables	**799**	818	**799**	818
Finished goods and goods for resale	**401**	473	**243**	412
	1,200	1,291	**1,042**	1,230

The cost of inventories recognised as expense and included in "cost of sales" amounted to £13,265,000 (2009: £8,207,000) for the Group and £12,793,000 (2009: £4,529,000) for the Company.

17 Trade and other receivables

	Group		Company	
	2010	2009	**2010**	2009
	£000	£000	**£000**	£000
Trade receivables	**5,224**	4,786	**4,820**	4,593
Less: provision for impairment of trade receivables	**(244)**	(252)	**(230)**	(252)
Trade receivables — net	**4,980**	4,534	**4,590**	4,341
Receivables from subsidiary undertakings	**—**	—	**487**	153
VAT recoverable	**165**	—	**99**	—
Other receivables	**—**	184	**—**	173
Prepayments and accrued income	**139**	193	**121**	180
	5,284	4,911	**5,297**	4,847

All receivables are stated at fair value and are due within five years from the end of the reporting period.

17 Trade and other receivables continued

The ageing analysis of net trade receivables is as follows:

	Group		Company	
	2010	2009	**2010**	2009
	£000	£000	**£000**	£000
Up to 3 months	**3,500**	2,836	**3,139**	2,659
3 to 6 months	**1,317**	1,422	**1,295**	1,422
Over 6 months	**163**	276	**156**	260
Trade receivables — net	**4,980**	4,534	**4,590**	4,341

As of 31 December 2010 trade receivables of £1,049,000 (2009: £1,000,000) for the Group and £1,042,000 (2009: £965,000) for the Company were past due but not impaired. These relate to longstanding customers for who there are no recent history of default. The ageing analysis of these receivables is as follows:

	Group		Company	
	2010	2009	**2010**	2009
	£000	£000	**£000**	£000
Up to 3 months	**244**	552	**244**	528
3 to 6 months	**711**	445	**711**	436
Over 6 months	**94**	3	**87**	1
	1,049	1,000	**1,042**	965

As of 31 December 2010 trade receivables of £244,000 (2009: £252,000) for the group and £230,000 (2009: £252,000) for the Company were impaired and fully provided for. The individually impaired receivables mainly relate to historic debt for which recovery is still being sought. The Group mitigates its exposure to credit risk by extensive use of credit insurance and letters of credit to remit amounts due. The ageing of these trade receivables is as follows:

	Group		Company	
	2010	2009	**2010**	2009
	£000	£000	**£000**	£000
3 to 6 months	**18**	46	**18**	46
Over 6 months	**226**	206	**212**	206
	244	252	**230**	252

Movement on the group provision for impairment of trade receivables is as follows:

	Group	Company
	£000	**£000**
At 1 January 2010	**252**	**252**
Provisions for receivables created	**56**	**42**
Amounts recovered during the year	**(64)**	**(64)**
At 31 December 2010	**244**	**230**

Notes to the financial statements continued
for the year ended 31 December 2010

17 Trade and other receivables continued

The carrying amounts of trade and other receivables are denominated in the following currencies:

	Group		Company	
	2010	2009	**2010**	2009
	£000	£000	**£000**	£000
Pounds sterling	**2,775**	2,888	**2,776**	2,888
Euros	**1,183**	805	**1,183**	805
US Dollar	**651**	664	**631**	648
Other currencies	**371**	177	**—**	—
	4,980	4,534	**4,590**	4,341

18 Cash and cash equivalents

Cash and cash equivalents comprise cash and short-term deposits held by Group companies. The carrying amount of these assets approximates to their fair value.

19 Trade and other payables

	Group		Company	
	2010	2009	**2010**	2009
	£000	£000	**£000**	£000
Trade payables	**2,724**	3,223	**2,538**	3,125
Amounts due to subsidiary undertakings	**—**	—	**114**	2,490
Other payables	**—**	301	**—**	289
Taxes and social security costs	**80**	67	**80**	67
Accruals and deferred income	**1,103**	518	**1,057**	516
	3,907	4,109	**3,789**	6,487

20 Borrowings

The total amount due within one year at 31 December 2010 under hire purchase agreements is as follows:

	Group and Company	
	2010	2009
	£000	£000
Due within one year	**3**	27
Due within two to five years	**—**	3
	3	30

21 Deferred income tax

	2010	2009
Group	**£000**	£000
At 1 January	**493**	—
Acquisition of subsidiaries (note 30)	**—**	479
Income statement charge (note 12)	**162**	14
At 31 December	**655**	493

During the year, as a result of the change in the UK corporation tax rate from 28% to 27% that was substantively enacted on 27 July 2010 and planned to be effective from 1 April 2011, the relevant deferred tax balances have been re-measured. Deferred tax balances at 31 December 2010 have been measured at 27%.

Further reductions to the UK tax rate have been announced. The changes reduce the rate to 26% from 1 April 2011 and by 1% per annum thereafter to 23% by 1 April 2014. The changes had not been substantively enacted at the balance sheet date and, therefore, are not recognised in these financial statements. The effects of these changes are not expected to have any material impact on the financial statements.

21 Deferred income tax continued

Deferred tax liabilities/(assets)

	Accelerated tax allowances £000	Fair value gains £000	Losses £000	Total £000
At 1 January 2009	—	—	—	—
Income statement charge (note 12)	14	—	—	14
Acquisition of subsidiaries (note 30)	9	470	—	479
At 1 January 2010	23	470	—	493
Income statement charge (note 12)	473	(22)	(289)	162
At 31 December 2010	**496**	**448**	**(289)**	**655**
Classified as:				
Deferred income tax asset				**289**
Deferred income tax liability				**944**

Company	2010 £000	2009 £000
At 1 January	**493**	—
Hive up of subsidiaries	**—**	479
Income statement charge	**162**	14
At 31 December	**655**	493

Deferred tax liabilities/(assets)

	Accelerated tax allowances £000	Fair value gains £000	Losses £000	Total £000
At 1 January 2009	—	—	—	—
Hive up of subsidiaries (note 30)	23	470	—	493
At 1 January 2010	23	470	—	493
Income statement charge	473	(22)	(289)	162
At 31 December 2010	**496**	**448**	**(289)**	**655**
Classified as:				
Deferred income tax asset				**289**
Deferred income tax liability				**944**

Losses

In addition to the losses noted above the Group and Company have not recognised deferred tax assets of £530,000 in respect of unutilised tax losses totalling £1,963,000.

22 Contingent liabilities

On the acquisition of Agil, part of the consideration was deferred pending receipt of trade receivables outstanding at November 2006. Management is of the opinion that £157,000 (2009: £193,000) of these trade receivables will not prove to be recoverable and these have been written off in the financial statements.

In the event that these receivables are collected then these balances will be due to the vendor of the business, ECO Animal Health Group plc. In view of the uncertainty surrounding the recovery of these receivables the directors do not consider it appropriate to provide for the deferred consideration in these financial statements, as this will only be paid on recovery of the receivables.

Notes to the financial statements continued
for the year ended 31 December 2010

23 Financial commitments

At 31 December 2010 the Group has future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Vehicles, plant and equipment		Land and buildings	
	2010	2009	**2010**	2009
	£000	£000	**£000**	£000
Less than one year	**73**	74	**14**	107
Between one and five years	**67**	143	**—**	—

The Group leased properties under non-cancellable operating lease agreements until October 2010, when a long underlease was acquired from the landlord and future obligations ceased.

The Group also leases property under cancellable operating lease agreements requiring 3 months notice.

The lease expenditure charged to the income statement during the year is disclosed in note 4.

24 Capital commitments

The Group had authorised capital commitments as at 31 December 2010 of £187,000 (2009: £54,000) in respect of property, plant and equipment.

25 Share capital

	2010	2009
	£000	£000
Authorised		
86,956,521 Ordinary shares of 23p each	**20,000**	—
2,000,000,000 Ordinary shares 1p each	**—**	20,000
1,859,672 'A' shares of 99p each	**1,841**	1,841
	21,841	21,841
Allotted, called up and fully paid		
18,299,952 Ordinary shares of 23p each	**4,209**	—
251,078,696 Ordinary shares 1p each	**—**	2,511
Issue of ordinary shares of 1p each	**—**	1,584
Shares issued on acquisition of subsidiaries	**—**	114
	4,209	4,209

On 1 October 2009 the Company undertook a share placement of 158,410,233 Ordinary shares of 1p to fund the acquisition of Optivite Group. This resulted in £2,957,000 (net of expenses) being credited to the share premium reserve. On the same day 11,410,000 Ordinary shares of 1p were issued as consideration shares resulting in £228,000 being credited to the merger reserve.

On 1 October 2010 the Company undertook a 1 for 23 ordinary share consolidation.

26 Retained earnings

	Group	**Company**
	£000	**£000**
At 1 January 2009	335	335
Profit for the year	1,211	1,148
Dividends relating to 2008	(101)	(101)
Arising on hive up of subsidiaries (note 30)	—	96
At 31 December 2009	1,445	1,478
Profit for the year	1,282	1,334
Dividends relating to 2009	(210)	(210)
At 31 December 2010	**2,517**	**2,602**

27 Other reserves

Other reserves comprise:

	2010 £000	2009 £000
Merger reserve	**228**	228
Share-based payment reserve	**379**	279
Translation reserve	**6**	1
	613	508

Movements in other reserves balances are shown in the Consolidated statement of changes in equity.

28 Share-based payments

Movements in the number of share options outstanding have been restated following the share consolidation on 1 October 2010 and are as follows:

	Weighted average exercise price (p)	Shares 2010 000	Shares 2009 As restated 000
Outstanding at 1 January	76	**1,619**	821
Granted during the year	82	**392**	798
Forfeited or cancelled during the year	95	**(185)**	—
Outstanding at 31 December	76	**1,826**	1,619
Exercisable at 31 December		**479**	679

Share options outstanding at the end of the year have the following expiry dates and weighted average exercise prices:

Expiry date	Weighted average exercise price (p)	Shares 2010 000	Shares 2009 As restated 000
2015	165	**44**	54
2016	86	**397**	273
2017	104	**65**	174
2018	32	**163**	320
2019	69	**765**	798
2020	82	**392**	—
		1,826	1,619

On 26 April 2010, 98,000 options were forfeit on the retirement of a director. On 28 May 2010 and 27 August 2010 options totalling 305,000 were awarded under the Company's Enterprise Management Incentive Scheme. On 22 December 2010 87,000 options issued in 2007 were cancelled and replaced by new options awarded under the Company's Enterprise Management Incentive Scheme. The fair value of services received in return for share options granted is measured by reference to the fair value of the share options granted. The estimate of fair value received is calculated based on appropriate valuation models.

The expense is apportioned over the vesting period and is based on the number of financial instruments which are expected to vest and the fair value of those financial instruments at the date of grant. The charge for the year in respect of share options granted amounts to £100,000 (2009: £30,000).

Notes to the financial statements continued
for the year ended 31 December 2010

28 **Share-based payments** continued

The weighted average fair value of options granted during the year was determined based on the following assumptions using the Black-Scholes pricing Model:

Grant date	28-May	27-Aug	22-Dec
Number of options granted (000)	283	22	87
Grant price (p)	86.25	88.21	88.00
Exercise price (p)	86.25	86.25	69.00
Vesting period (years)	2	2	0.1
Option expiry (years)	10	10	10
Expected volatility of the share price	37%	37%	37%
Dividends expected on the shares	1.33%	1.30%	1.31%
Risk-free rate	2.41%	1.80%	2.42%
Fair value (p)	27.06	27.52	34.80

29 **Related party transactions**

Group and Company

The following transactions were carried out with related parties:

P A Lawrence, Chairman of ECO Animal Health Group plc, is a non-executive director of the Company and £26,000 (2009: £22,000) was paid to ECO Animal Health Group plc in respect of his services and expenses;

ECO Animal Health Group plc had an accounting management agreement with the Group for which it received £10,000 per annum (2009: £41,000);

Work done by certain employees of ECO Animal Health Group plc in connection with the research and development of aquaculture technology totalled £111,000 (2009: £92,000);

On 31 December 2011 ECO Animal Health Group plc held 362,000 23p ordinary shares amounting to 2.01% of the ordinary Share Capital (2009: 8,333,000 1p ordinary shares amounting to 1.98% of the ordinary Share Capital);

Electro Switch Limited, a company controlled by close members of family of the Chairman, R S Rose, received the sum of £18,000 (2009: £5,000).

There were no amounts due to related parties at 31 December 2010 (2009: £10,000 was due to ECO Animal Health Group plc).

Key management comprises the directors of Kiotech International plc and their emoluments are as follows:

Total	**2010 £000**	2009 £000
Salaries and other short-term employment benefits	**647**	300
Post-employment benefits	**54**	11
Payments made to third parties	**134**	117
Share-based payments	**78**	29
	913	457

29 Related party transactions continued

Company

The following transactions were carried out with related parties:

	2010 £000	2009 £000
Sales of goods:		
— Subsidiaries	**421**	450
Sales of services:		
— Subsidiaries	**29**	—
Purchases of goods:		
— Subsidiaries	**—**	—
Purchases of services:		
— Subsidiaries	**23**	—
Dividends received		
— Subsidiaries	**2,391**	—

Year-end balances with related parties:

	2010 £000	2009 £000
Receivables from related parties (note 17)		
— Subsidiaries	**487**	153
Payables to related parties (note 19)		
— Subsidiaries	**114**	2,490

30 Business combinations

Group

On 1 October 2009, the Group acquired 100% of the share capital of Optivite Limited and Optivite International Limited ("Optivite Group") for £3,994,000 before costs.

At that date, the fair value of the net assets and liabilities of the Optivite Group equalled £3,647,000 and consequently gives rise to goodwill on the transaction of £592,000.

The acquired business contributed revenues of £3,151,000 and net profit after tax of £107,000 to the Group for the period 1 October 2009 to 31 December 2009. If the acquisition had occurred on 1 January 2009 Group revenue for 2009 would have been £23,172,000 and net profit would have been £1,849,000. These amounts have been calculated using the Group's accounting policies.

The goodwill arising on acquisition is attributable to the synergies expected from combining the operations of the Group with the Optivite Group.

The fair value of the shares issued was based on the price used for the share placing on 1 October 2009.

Details of net assets acquired and goodwill are as follows:

Purchase consideration	2009 £000
Cash paid	3,652
Direct costs relating to the acquisition	205
Fair value of shares issued	342
Total purchase consideration	4,199

Notes to the financial statements continued
for the year ended 31 December 2010

30 **Business combinations** continued

The assets and liabilities as at 1 October 2009 arising from the acquisition are as follows:

	Fair value £000	Acquiree's carrying value £000
Cash and cash equivalents	731	731
Property, plant and equipment	339	339
Investments in subsidiaries	13	13
Brands	1,501	—
Customer relationships	176	—
Inventories	638	638
Trade and other receivables	3,546	3,546
Trade and other payables	(2,387)	(2,387)
Borrowings	(38)	(38)
Corporation tax	(443)	(443)
Deferred tax liabilities	(479)	(9)
Other net assets	50	50
Fair value of assets	3,647	2,440
Goodwill	592	
Non-controlling	(40)	
Total purchase consideration	**4,199**	
Purchase consideration settled in cash		3,857
Cash and cash equivalents in subsidiaries acquired		(730)
Cash outflow on acquisition		3,127

There were no acquisitions in the year ended 31 December 2010.

On 31 December 2009 the operations and net assets of Optivite Limited and Optivite International Limited were transferred to Kiotech International plc as a hive up transaction.

This represents a common control transaction and hence is outside the scope of IFRS3. The Group has therefore selected to account for the transaction using predecessor values which represent the value of the assets and liabilities in the highest level of Group. These values have therefore been determined from the carrying value of assets and liabilities in the consolidated Group as at 31 December 2009. The assets and liabilities transferred as at 31 December 2009 are as follows:

Company	Carrying value £000
Goodwill	592
Cash and cash equivalents	517
Property, plant and equipment	290
Investment in subsidiaries	13
Brands	1,501
Customer relationships	176
Inventories	752
Trade and other receivables	3,865
Trade and other payables	(2,628)
Corporation tax	(267)
Borrowings	(29)
Deferred tax liabilities	(493)
Carrying value of assets hived up	**4,289**

Notice of Annual General Meeting

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt as to what action to take, you should consult your stockbroker, solicitor, accountant or other appropriate independent professional adviser authorised under the Financial Services and Markets Act 2000. If you have sold or otherwise transferred all your shares in Kiotech International plc, please forward this document and the accompanying form of proxy to the person through whom the sale or transfer was effected, for transmission to the purchaser or transferee.

The Board of Kiotech International plc considers all of the proposed resolutions to be in the best interests of shareholders as a whole and accordingly recommends that shareholders vote in favour of all the resolutions proposed.

Notice of Annual General Meeting (AGM)

Notice is hereby given that the AGM of Kiotech International plc will be held at the offices of FinnCap, 60 New Broad Street, London, EC2M 1JJ on Thursday 30 June 2011, at 10.30 am for the following purposes:

Resolution 1

To receive the Directors' Report and the Financial Statements for the year ended 31 December 2010.

Resolution 2

To declare a final dividend of 2.00p per ordinary share payable on 29 July 2011 to shareholders on the register at close of business on 8 July 2011.

Resolution 3

To re-elect Richard S Rose as a Director, who retires by rotation.

Resolution 4

To re-elect Karen L Prior as a Director, who retires by rotation.

Resolution 5

To re-elect PricewaterhouseCoopers LLP as auditors.

Resolution 6

To authorise the Directors to agree the auditors' remuneration.

And

To consider and, if thought fit, pass the following resolutions, resolution 7 will be proposed as an ordinary resolution of the Company and Resolutions 8 and 9 as special resolutions of the Company.

Resolution 7

THAT pursuant to Section 551 of the Companies Act 2006, the Directors be and are generally and unconditionally authorised to exercise all powers of the Company to allot shares in the Company or to grant rights to subscribe for or to convert any security into shares in the Company up to an aggregate nominal amount of £1,311,416, provided that (unless previously revoked varied or renewed) such authority to expire at the conclusion of the next annual general meeting of the Company save that the Company may make an offer or agreement before this authority expires which would or might require shares to be allotted or rights to subscribe for or to convert any security into shares to be granted after this authority expires and the Directors may allot shares or grant such rights pursuant to any such offer or agreement as if this authority had not expired.

Resolution 8

That subject to the passing of Resolution 7 and pursuant to Section 570 of the Companies Act 2006, the Directors be and are generally empowered to allot equity securities (within the meaning of Section 560 of the Companies Act 2006) for cash pursuant to the authority granted by Resolution 7 as if Section 561(1) of the Companies Act 2006 did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities:

(a) in connection with an offer of equity securities (whether by way of a rights issue, open offer or otherwise):

  (i) to holders of ordinary shares in the capital of the Company in proportion (as nearly as practicable) to the respective numbers of ordinary shares held by them; and

  (ii) to holders of other equity securities in the capital of the Company, as required by the rights of those securities or, subject to such rights, as the Directors otherwise consider necessary,

but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to treasury shares, fractional entitlements, record dates or any legal or practical problems under the laws of any territory or the requirements of any regulatory body or stock exchange; and

(b) otherwise than pursuant to paragraph (a) of this resolution, up to an aggregate nominal amount of £198,699 and (unless previously revoked varied or renewed) this power shall expire at the conclusion of the next annual general meeting of the Company save that the Company may make

Notice of Annual General Meeting continued

an offer or agreement before this power expires which would or might require equity securities to be allotted for cash after this power expires and the Directors may allot equity securities for cash pursuant to any such offer or agreement as if this power had not expired.

Resolution 9

THAT pursuant to Section 701 of the Companies Act 2006, the Company be and it is hereby generally and unconditionally authorised to make market purchases (within the meaning of Section 693(4) of the Companies Act 2006) of ordinary shares of 23p each in the capital of the Company (ordinary shares) provided that:

(a) the maximum aggregate number of ordinary shares hereby authorised to be purchased is 1,806,495;

(b) the minimum price (excluding expenses) which may be paid for an ordinary share is 23p;

(c) the maximum price (excluding expenses) which may be paid for an ordinary share is not more than the higher of:

(i) an amount equal to 105% of the average of the middle market quotations for an ordinary share as derived from the AIM appendix to the London Stock Exchange Daily Official List for the five business days before the purchase is made; and

(ii) an amount equal to the higher of the price of the last independent trade of an ordinary share and the highest current independent bid for an ordinary share on the trading venue where the purchase is carried out;

(d) the authority hereby conferred shall expire at the conclusion of the next AGM of the Company after the passing of this resolution or, if earlier, on 30 September 2012; and

(e) the Company may make a contract to purchase ordinary shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiry of such authority.

By Order of the Board

Karen Prior

Company Secretary

25 May 2011

Notes to the Notice of Annual General Meeting

Entitlement to attend and vote

1. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company specifies that only those members registered on the Company's register of members 48 hours before the time of the Meeting shall be entitled to attend and vote at the Meeting.

Appointment of proxies

2. If you are a member of the Company at the time set out in note 1 above, you are entitled to appoint a proxy to exercise all or any of your rights to attend, speak and vote at the Meeting and you should have received a proxy form with this notice of meeting. You can only appoint a proxy using the procedures set out in these notes and the notes to the proxy form.
3. A proxy does not need to be a member of the Company but must attend the Meeting to represent you. Details of how to appoint the Chairman of the Meeting or another person as your proxy using the proxy form are set out in the notes to the proxy form. If you wish your proxy to speak on your behalf at the Meeting you will need to appoint your own choice of proxy (not the Chairman) and give your instructions directly to them.
4. You may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. You may not appoint more than one proxy to exercise rights attached to any one share. To appoint more than one proxy, please contact the registrars of the Company, Share Registrars Limited on 01252 821 390.
5. A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution. If no voting indication is given, your proxy will vote or abstain from voting at his or her discretion. Your proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the Meeting.

Appointment of proxy using hard copy proxy form

6. The notes to the proxy form explain how to direct your proxy how to vote on each resolution or withhold their vote. To appoint a proxy using the proxy form, the form must be:
   - completed and signed;
   - sent or delivered to Share Registrars Limited at Suite E, First Floor, 9 Lion and Lamb Yard, Farnham, Surrey GU9 7LL or by facsimile transmission to 01252 719 232;
   - alternatively, the completed proxy form can be scanned and emailed to proxies@shareregistrars.uk.com;
   - and received by Share Registrars Limited no later than 48 hours (excluding non-business days) prior to the Meeting.

   In the case of a member which is a company, the proxy form must be executed under its common seal or signed on its behalf by an officer of the Company or an attorney for the Company.

   Any power of attorney or any other authority under which the proxy form is signed (or a duly certified copy of such power or authority) must be included with the proxy form.

Appointment of proxy by joint members

7. In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's register of members in respect of the joint holding (the first-named being the most senior).

Changing proxy instructions

8. To change your proxy instructions simply submit a new proxy appointment using the methods set out above. Note that the cut-off time for receipt of proxy appointments (see above) also apply in relation to amended instructions; any amended proxy appointment received after the relevant cut-off time will be disregarded.

   Where you have appointed a proxy using the hard-copy proxy form and would like to change the instructions using another hard-copy proxy form, please contact Share Registrars Limited on 01252 821 390.

   If you submit more than one valid proxy appointment, the appointment received last before the latest time for the receipt of proxies will take precedence.

Termination of proxy appointments

9. In order to revoke a proxy instruction you will need to inform the Company using one of the following methods:

   By sending a signed hard copy notice clearly stating your intention to revoke your proxy appointment to Share Registrars Limited at Suite E, First Floor, 9 Lion and Lamb Yard, Farnham, Surrey GU9 7LL or by facsimile transmission to 01252 719 232. In the case of a member which is a company, the revocation notice must be executed under its common seal or signed on its behalf by an officer of the Company or an attorney for the Company. Any power of attorney or any other authority under which the revocation notice is signed (or a duly certified copy of such power or authority) must be included with the revocation notice.

   In either case, the revocation notice must be received by Share Registrars Limited no later than 48 hours (excluding non-business days) prior to the Meeting.

   If you attempt to revoke your proxy appointment but the revocation is received after the time specified then, subject to the paragraph directly below, your proxy appointment will remain valid.

   Appointment of a proxy does not preclude you from attending the Meeting and voting in person. If you have appointed a proxy and attend the Meeting in person, your proxy appointment will automatically be terminated.

Issued shares and total voting rights

10. As at 20 May 2011 the Company's issued share capital comprised 18,299,952 ordinary shares of 23p each. The Company holds 235,000 ordinary shares of 23p each as treasury shares. Each ordinary share carries the right to one vote at an Annual General Meeting of the Company and, therefore excluding shares held as treasury shares the total number of voting rights in the Company as at 20 May 2011 is 18,064,952.

Explanatory Notes on the Resolutions to be sent to Shareholders

Resolution 1: Report and Accounts

The Directors must present their report and the annual accounts to the meeting. This gives shareholders the opportunity to ask questions on the content before voting on the resolution.

Resolution 2: Dividends

Subject to shareholder approval, a final dividend of 2.00 pence per ordinary share payable to ordinary shareholders on 8 July 2011 has been recommended by the Directors for the year ended 31 December 2010. The final dividend cannot exceed the amount recommended by the directors.

Resolution 3-4: Directors

The Company's Articles of Association require one third of the Directors to retire and submit themselves for election each year. Richard Rose and Karen Prior must, therefore, retire and submit themselves to re-election at this AGM. There are no Directors of the Company who are eligible to submit themselves for re election having been appointed since the last Annual General Meeting

Resolution 5: Appointment of Auditors

An ordinary resolution will be proposed to re-appoint PricewaterhouseCoopers LLP as the Company's auditors to hold office from the conclusion of the annual general meeting until the conclusion of the next general meeting at which accounts are laid before the Company.

Resolution 6: Remuneration of the Auditors

An ordinary resolution will also be proposed to authorise the Directors to determine the remuneration payable to the auditors.

Resolution 7: Directors' Authority to Allot Shares

This Resolution seeks shareholder approval for the directors to be authorised to allot shares. Under the provisions of section 551 of the Companies Act 2006, the directors are not permitted to allot shares unless authorised to do so by the shareholders. This Act provides for such authority to be granted either by the Company in general meeting or by the Articles of Association and in both cases such authority must be renewed every five years.

This power will last until the conclusion of the next annual general meeting of the Company in 2012.

Resolution 8: Directors' Power to Disapply Pre-emption Rights

This resolution, which will be proposed as a special resolution, supplements the directors' authority to allot shares in the Company proposed by resolution 7.

Section 561 of the Companies Act 2006 requires a company proposing to allot equity securities (which includes selling shares held in treasury) to offer them first to existing shareholders in proportion to their existing shareholdings. Equity securities includes ordinary shares [(the only class of share capital the Company has at present) but does not include shares issued under employee share schemes. If resolution 8 is passed, the requirement imposed by section 561 will not apply to allotments by the directors in two cases:-

1. in connection with a rights (or similar) issue, where strict application of the principle in section 561 could (for example) either result in fractional entitlements to shares arising or require the issue of shares where this would be impractical because of local, legal or regulatory requirements in any given overseas jurisdiction; and
2. allotments of shares for cash up to a total nominal value of £198,699 (representing 5% of the Company's issued share capital at 20 May 2011). This gives the directors flexibility to take advantage of business opportunities as they arise, whilst the 5% limit ensures that existing shareholders' interests are protected in accordance with guidelines issued by institutional investors' bodies.

This authority will expire at the conclusion of the next annual general meeting except in so far as commitments to allot shares have been entered into before that date.

Resolution 9: Company's Authority to Purchase Shares

In some circumstances, companies can find it advantageous to use surplus funds to make market purchases of their own shares. Shares purchased in this way may either be cancelled (thus reducing the total number of shares in issue and potentially increasing future earnings on the remaining shares) or held as treasury shares in accordance with the Companies Act 2006.

This resolution, which will be proposed as a special resolution, seeks to renew the existing authority for the Company to purchase its own shares in the market.

The maximum price at which the shares may be purchased is 105% of the average of the middle market values of those shares for the five business days before the purchase is made.

Purchases of shares under the proposed authority are required by the AIM Rules for Companies of the London Stock Exchange to be made in compliance with the Model Code. Accordingly, the Company would not exercise the authority at a time when the directors would be precluded from dealing in the Company's shares. Specifically, purchases would not be made within the 60 days preceding the announcement of the interim or final results. This proposal should not be taken as an indication that the Company would purchase shares at any particular price or to imply any opinion on the part of the directors as to the market or other value of the Company's shares.

The Companies Act 2006 enables certain listed companies to hold shares in treasury, as an alternative to cancelling them, following a purchase of own shares in accordance with that Act. Shares held in treasury may subsequently be cancelled, sold for cash or used to satisfy share options and share awards under the Company's share schemes. Once held in treasury, the Company is not entitled to exercise any rights, including the right to attend and vote at meetings in respect of those shares. Further, no dividend or distribution of the Company's assets may be made to the Company in respect of those shares whilst held in treasury.

Accordingly, if the directors exercise the authority conferred by Resolution 9, the Company will have the option of holding those shares in treasury rather than cancelling them.

During the year, the Directors used the authority granted at the annual general meeting on 30 June 2010 to repurchase 235,000 shares at a price of 70 pence per share. As at the date of this document, the Company had approximately 18,299,995 shares in issue. This resolution seeks authority to purchase a maximum of 1,806,495 shares representing approximately 10% of the current issued share capital.

Shareholder Notes

Company information

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Richard P Edwards
Peter A Lawrence
Richard H Scragg
David M A Bullen
Karen L Prior

Company Secretary
Karen L Prior

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