

**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.** If you are in any doubt about the contents of this document or what action you should take you should consult a person duly authorised under the Financial Services and Markets Act 2000 (as amended) ("FSMA") who specialises in advising on the acquisition of shares and other securities before taking any action.

If you have sold or transferred all your Ordinary Shares in the Company you should send this document along with the Form of Proxy at once to the purchaser or transferee or the stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee. However such documents should not be forwarded or transmitted in or into or from the United States, Canada, Australia, South Africa, Japan or the Republic of Ireland or any other territory outside the United Kingdom.

Application has been made for the whole of the Enlarged Issued Share Capital of the Company to be admitted to trading on the AIM Market of the London Stock Exchange ("AIM"). It is expected that Admission will become effective and that dealings in the Enlarged Issued Share Capital will commence on AIM on 28 November 2006. AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to a larger or more established companies. AIM securities are not admitted to the Official List of the UK Listing Authority. A prospective investor should be aware of the risks of investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent financial adviser. Neither the London Stock Exchange plc nor the United Kingdom Listing Authority have examined or approved the contents of this document.

A copy of this document, which is drawn up as an admission document in accordance with the rules of AIM (the "AIM Rules"), has been issued in connection with the application for admission to trading of the Enlarged Issued Share Capital on AIM. This document does not constitute an offer to the public in accordance with the provisions of section 85 of FSMA and is not a prospectus for the purposes of the Prospectus Regulations 2005. Accordingly this document has not been pre-approved by the Financial Services Authority pursuant to section 85 of FSMA.

The Directors and the Proposed Director, whose names are set out on page 8, and the Company accept responsibility for the information contained in this document, including individual and collective responsibility for compliance with the AIM Rules. To the best of the knowledge and belief of the Directors and the Proposed Director (who have taken all reasonable care that such is the case) the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

The Placing Shares will rank *pari passu* in all respects with the Existing Ordinary Shares including the right to receive all dividends and other distributions declared, made or paid on the Ordinary Shares after the date of this document.

**YOUR ATTENTION IS DRAWN TO THE IMPORTANT NOTICE ON PAGE 2 OF THIS DOCUMENT AND TO THE RISK FACTORS SET OUT IN PART II OF THIS DOCUMENT.**

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## Kiotech International plc

(Registered in England and Wales with registered number 03345857)

### Proposed Acquisition of the business and assets of Agil Placing of 176,500,000 Ordinary Shares at 3p per share Re-admission to trading on AIM and Notice of Extraordinary General Meeting



C O R P O R A T E

Nominated Adviser and Broker

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J. M. Finn & Co. Ltd ("JM Finn") which is authorised and regulated by the Financial Services Authority, is acting as nominated adviser and broker to the Company. JM Finn are not acting for anyone else and will not be responsible to anyone other than the Company for providing the protections afforded to customers of JM Finn or for providing advice in relation to the contents of this document or the admission of the Enlarged Issued Share Capital to trading on AIM. JM Finn as nominated adviser and broker to the Company owes certain responsibilities solely to the London Stock Exchange which are not owed to the Company, the Directors or any other person. JM Finn is not making any representation or warranty expressed or implied as to the contents of this document.

This document contains forward looking statements, which have been made after due and careful enquiry and are based on the Board's current expectations and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. These forward-looking statements are subject to, *inter alia*, the risk factors described in Part II of this document. The Directors believe that the expectations reflected in these statements are reasonable, but may be affected by a number of variables which could cause actual results or trends to differ materially, including, but not limited to: the Group's ability to obtain capital/additional finance; a reduction in demand by customers; the limitations of the Group's internal financial reporting; changes in environmental and safety regulations; currency and interest rate fluctuations and the adoption of IFRS. Each forward-looking statement speaks only as of the date of the particular statement.

Factors that might cause a difference include, but are not limited to, those discussed in "Risk Factors" set out in Part II of this document. Given these uncertainties, prospective investors are cautioned not to place any undue reliance on such forward looking statements. The Company disclaims any obligation to update any such forward looking statements in the document to reflect future events or developments.

Notice convening an Extraordinary General Meeting of Kiotech International plc to be held at 10.00 a.m. at Lawrence Graham LLP's offices at 190 Strand, London WC2R 1JN on 27 November 2006 is set out at the end of this document. The enclosed Form of Proxy for use at the Extraordinary General Meeting should be completed and returned to Share Registrars Ltd, Craven House, West Street, Farnham, Surrey, GU9 7BR as soon as possible and to be valid must arrive not less than 48 hours before the time appointed for the holding of the meeting. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the time by which a person must be entered on the register of members in order to have the right to vote at such meeting is 10.00 a.m. on 25 November 2006 or 48 hours before any adjourned meeting. Changes to entries on the register after that time will be disregarded in determining the right of any person to attend or vote at the meeting. Completion and return of a Form of Proxy will not preclude Shareholders from attending in person and voting at the Extraordinary General Meeting should they so wish.

Copies of this document which is dated 3 November 2006 will be available free of charge to the public during normal business hours on any weekday (except Saturdays, Sundays and public holidays) from the registered office of JM Finn (Salisbury House, London Wall, London. EC2M 5TA) from the date of Admission for not less than one month.

## IMPORTANT NOTICE

The information below is for general guidance only and it is the responsibility of any person or persons in possession of this admission document and wishing to make an application for Placing Shares to inform themselves of, and to observe, all applicable laws and regulations of any relevant jurisdiction.

No person has been authorised by the Company to issue any advertisement or to give any information or to make any representation in connection with the contents of this document and, if issued, given or made, such advertisement, information or representation must not be relied upon as having been authorised by the Company. This document does not constitute, and may not be used for the purposes of, an offer or solicitation to anyone in any jurisdiction in which such offer or solicitation is not authorised or to any person to whom it is unlawful to make such offer or solicitation. In particular, this document does not constitute an offer to sell or the solicitation of an offer to buy any of the Placing Shares in the United States (or in any of its territories or possessions), Canada, Australia, South Africa, the Republic of Ireland, or Japan (collectively, the “Prohibited Territories”) and this document should not be forwarded or transmitted to or into the Prohibited Territories or to any resident, national, citizen or corporation, partnership or other entity created or organised under the laws thereof or in any other country outside the United Kingdom where such distribution may lead to a breach of any legal or regulatory requirement. The distribution of this document may be restricted and accordingly persons into whose possession this document comes are required to inform themselves about and to observe such restrictions.

Prospective investors should not treat the contents of this document as advice relating to legal, tax, investment or any other matter. Prospective investors should inform themselves as to: (a) the legal requirements of their own countries for the purchase, holding, transfer or other disposal of the Placing Shares; (b) any foreign exchange restrictions applicable to the purchase, holding, transfer or other disposal of the Placing Shares which they might encounter, and (c) the income and other tax consequences which may apply in their own countries as a result of the purchase, holding, transfer or other disposal of the Placing Shares. Prospective investors must rely upon their own representatives, including their own legal advisers and accountants, as to legal, tax, investment or any other related matters concerning the Company and an investment therein. Statements made in this document are based on the law and practice currently in force in England and Wales are subject to change. This document should be read in its entirety. All Shareholders are entitled to the benefit of, and are bound by and are deemed to have notice of, the provisions of the Articles of the Company.

This document contains forward looking statements. These relate to the Company’s future prospects, developments and strategies. Forward-looking statements are identified by their use of terms and phrases such as “believe”, “could”, “envisage”, “estimate”, “intend”, “may”, “plan”, “will” or the negative of those, variations or comparable expressions, including references to assumptions. These statements are primarily contained in Parts I and II of this document. The forward looking statements in this document are based on current expectations and are subject to risks and uncertainties that could cause actual results to differ materially from those expressed or implied by those statements.

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## DEFINITIONS

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

“Acquisition”	the proposed acquisition of the business and assets of Agil on the terms and subject to the conditions set out in the Acquisition Agreement
“Acquisition Agreement”	the agreement to be dated on or around 27 November 2006 whereby the Company will acquire Agil, further details of which are set out in paragraph 8 in Part VII of his document
“Act”	the Companies Act 1985 (as amended)
“Admission”	the admission of the Enlarged Issued Share Capital to trading on AIM becoming effective in accordance with the AIM Rules
“Agil”	the trading division of Lawrence operating in the feed additive market
“AIM”	the market of that name operated by the London Stock Exchange
“AIM Rules”	the rules for companies admitted to trading on AIM published by the London Stock Exchange
“Articles”	the articles of association of the Company
“Board” or “Directors”	the directors of the Company whose names are set out on page 8
“Cash Consideration”	£5,250,000 to be paid by the Company to Lawrence as consideration under the terms of the Acquisition
“CEFAS”	the Centre for Environment, Fisheries & Aquaculture Science, an executive agency of the Government Department for the Environment, Food and Rural Affairs
“CEFAS Agreement”	the licence dated 15 October 2002 between the Company and CEFAS for, <i>inter alia</i> , the exploitation of CEFAS research and development into formulations that influence fish behaviour further details of which are set out in paragraph 8 of Part VII of this document
“Combined Code”	the Combined Code on Corporate Governance dated June 2006, issued by the Financial Reporting Council
“Company” or “Kitech”	Kitech International plc
“Consideration Shares”	the 8,333,334 new Ordinary Shares to be issued to Lawrence as consideration under the terms of the Acquisition Agreement
“CREST”	the electronic settlement system to facilitate the transfer of title of shares in uncertificated form operated by CRESTCo Limited
“Enlarged Group”	the Company and its subsidiaries following completion of the Acquisition
“Enlarged Issued Share Capital”	the entire issued ordinary share capital of the Company on Admission (which shall include the Existing Ordinary Shares, the Consideration Shares and the Placing Shares)
“Existing Ordinary Shares”	the Ordinary Shares in issue at the date of this document

“Extraordinary General Meeting” or “EGM”	the extraordinary general meeting of the Company to be held at the offices of Lawrence Graham LLP of 190 Strand, London WC2R 1JN at 10.00 a.m. on 27 November 2006, notice of which is set out at the end of this document
“Form of Proxy”	the form of proxy accompanying this document for use in connection with the Extraordinary General Meeting
“FSA”	the Financial Services Authority
“FSMA”	the Financial Services and Markets Act 2000 (as amended)
“Group”	the Company and its subsidiaries as at the date hereof
“JM Finn”	J.M. Finn & Co. Ltd, nominated adviser and broker to the Company
“Kiotech EMI Scheme”	the Kiotech Enterprise Management Incentive Scheme, details of which are set out in paragraph 4 of Part VII of this document
“Lawrence”	Lawrence plc and certain of its subsidiaries, together the vendors of the business and assets of Agil
“London Stock Exchange”	London Stock Exchange plc
“mmt”	million metric tonnes
“Official List”	the official list of the UK Listing Authority
“Option Agreement”	the agreement dated 3 November 2006 whereby Lawrence has granted to the Company the right to enter into the Acquisition Agreement, which has previously been entered into by Lawrence, further details of which are set out in paragraph 8 of Part VII of this document
“Ordinary Shares”	ordinary shares of 1 pence each in the capital of the Company
“Pheromones”	chemical signals secreted or released by organisms which cause a specific response when detected by organisms of the same, or related, species
“Placing”	the proposed placing by JM Finn as agent for the Company of the Placing Shares at the Placing Price per share
“Placing Agreement”	the conditional agreement dated 3 November 2006 between the Company and JM Finn in connection with the Placing, further details of which are set out in paragraph 8 of Part VII of this document
“Placing Price”	3p per Placing Share
“Placing Shares”	the 176,500,000 new Ordinary Shares to be issued pursuant to the Placing
“Proposed Director”	Richard Edwards
“Rapala”	Rapala VMC Corporation
“Regulated Market”	a market within the meaning of Article 1(13) of the Investment Services Directive (93/122 EEC) which includes the London Stock Exchange but not AIM
“Regulations”	the Uncertificated Securities Regulations 2001

“Resolutions”	the resolutions to be proposed at the EGM
“Shareholders”	holders of Ordinary Shares
“Takeovers Regulations”	the Takeovers Directive (Interim Implementation) Regulations (SI1183/2006)
“UK”	United Kingdom
“UK Listing Authority”	the UK Listing Authority of the FSA, acting in its capacity as the competent authority for the purposes of FSMA
“Ultrabite”	the product name of a pheromone based attractant sold by the Company to the sports and leisure fishing market

## **PLACING STATISTICS**

Placing Price	3p
Number of Placing Shares	176,500,000
Number of Ordinary Shares in issue at Admission	251,078,696
Gross proceeds of the Placing	£5,295,000
Net proceeds of the Placing receivable by the Company	£4,695,000
Market capitalisation on Admission at the Placing Price	£7,532,361

## **EXPECTED TIMETABLE OF PRINCIPAL EVENTS**

Publication of this document	3 November 2006
Latest time and date for receipt of Forms of Proxy for the EGM	10.00 a.m. on 25 November 2006
Extraordinary General Meeting	10.00 a.m. on 27 November 2006
Completion of the Acquisition	28 November 2006
Re-Admission and dealings in the Enlarged Issued Share Capital expected to commence on AIM	28 November 2006
CREST accounts to be credited	28 November 2006
Despatch of share certificates in respect of Placing Shares	by 5 December 2006

## **DIRECTORS, PROPOSED DIRECTOR, COMPANY SECRETARY AND ADVISERS**

<b>Directors:</b>	Richard Sidney Rose <i>(Executive Chairman)</i> Peter Anthony Lawrence <i>(Non-Executive Director)</i> both of: 78 Coombe Road New Malden Surrey KT3 4QS
<b>Proposed Director:</b>	Richard Peter Edwards <i>(Proposed Chief Executive)</i> of: 78 Coombe Road New Malden Surrey KT3 4QS
<b>Registered Office:</b>	78 Coombe Road New Malden Surrey KT3 4QS
<b>Company Secretary:</b>	Lawrence plc
<b>Nominated Adviser &amp; Broker:</b>	J.M. Finn & Co. Ltd Salisbury House London Wall London EC2M 5TA
<b>Auditors:</b>	FW Stephens 10 Charterhouse Square London EC1M 6LQ
<b>Reporting Accountant:</b>	BDO Stoy Hayward LLP 8 Baker Street London W1U 3LL
<b>Solicitors to the Company:</b>	Lawrence Graham LLP 190 Strand London WC2R 1JN
<b>Solicitors to the Placing:</b>	Finers Stephens Innocent LLP 179 Great Portland Street London W1W 5LS
<b>Registrars:</b>	Share Registrars Ltd Craven House West Street Farnham Surrey GU9 7EN



## PART I

### LETTER FROM THE CHAIRMAN OF KIOTECH INTERNATIONAL PLC

#### **Kiotech International plc**

*(Incorporated and registered in England and Wales, registered number 03345857)*

*Directors:*

Richard S Rose     *Executive Chairman*  
Peter A Lawrence   *Non-Executive Director*

78 Coombe Road  
New Malden  
Surrey KT3 4QS

3 November 2006

Dear Shareholder

#### **Proposed Acquisition, Placing and Re-admission to trading on AIM**

##### **INTRODUCTION**

It was announced today that the Company has the benefit of an agreement to purchase the business and assets of Agil from Lawrence Plc. The aggregate consideration for the Acquisition is £5.5 million, of which £5.25 million is payable in cash and £0.25 million is to be satisfied by the issue, credited as fully paid, of 8,333,334 Ordinary Shares at the Placing Price to Lawrence Plc. The Acquisition will be financed through a conditional placing undertaken by JM Finn, as agent for the Company, pursuant to which JM Finn has agreed to use its reasonable endeavours to procure placees for 176,500,000 new Ordinary Shares at a price of 3p per share to raise a total of £5,295,000 (before the deduction of any expenses and VAT). The Placing is not being underwritten and is conditional upon, *inter alia*, the passing of the Resolutions and Admission.

Due to the size and nature of Agil's business in relation to that of the Company, the Acquisition constitutes a "reverse takeover" for the purpose of the AIM Rules and therefore requires Shareholder approval, which is being sought at the Extraordinary General Meeting of the Company to be held on 27 November 2006.

In addition Peter Lawrence, one of your Directors, is both a director of and shareholder in Lawrence. Accordingly, by virtue of section 320 of the Act, the Company cannot enter into a contract (conditional or otherwise) to acquire Agil without the prior approval of Shareholders. In such circumstances, and pursuant to the terms of the Option Agreement, Lawrence has granted to the Company the option to enter into the Acquisition Agreement once it has obtained Shareholder approval.

This document, which comprises an admission document drawn up in accordance with the AIM Rules, sets out the background to and reasons for the Acquisition and the Placing and explains why I, as the sole independent Director, and the Board, consider that the terms of the proposed Acquisition and the Placing are in the best interests of the Company and recommend that Shareholders as a whole vote in favour of the Resolutions.

##### **BACKGROUND INFORMATION ON KIOTECH**

###### **Introduction**

Kiotech is a British biotechnology company working in partnership with the UK Government agency CEFAS (the Centre for Environment, Fisheries & Aquaculture Science). This partnership has developed innovative pheromone technology which, the Directors and the Proposed Director believe, can improve both the production and sustainability of the worldwide commercial fishing and fish farming (aquaculture) markets.

At present, the Company has one product in commercial production, Ultrabite, an attractant which is sold to the sports and leisure fishing markets.

The Company, through its arrangements with CEFAS, is conducting tests to assess the efficacy of other products it is developing for commercial fishing and aquaculture markets.

## **History**

Kiotech was founded in 1996 and commenced trading on OFEX in December 1997.

In 2002 Kiotech entered into a long term global licence agreement with CEFAS giving Kiotech the exclusive right to exploit commercially the results of CEFAS's research and development into certain pheromone based formulations designed to influence fish behaviour. It also affords Kiotech access to CEFAS's research resources for product development programmes commissioned by the Company.

In June 2005 Kiotech moved from OFEX to AIM, at the same time raising £2.2 million.

Following the move to AIM, Kiotech reorganised its administration in order to reduce costs, including the appointment of Lawrence to handle all administration on a subcontract basis. It is intended that these arrangements will remain in place in relation to the Enlarged Group.

In September 2005, Kiotech appointed Rapala VMC Corporation as Kiotech's exclusive worldwide distributor of Ultrabite to the sports fishing market. Rapala, which has its headquarters in Finland, is a leading distributor of sports fishing related products with a global network. Rapala is currently developing a range of Ultrabite bait products, in conjunction with the Kiotech technology which Rapala has confirmed will be test launched in selected regions in late 2006 and early 2007.

## **CEFAS Agreement**

CEFAS is a UK Government agency that specialises in sustainable management of the aquatic environment. CEFAS was established approximately 100 years ago and has an international reputation for its expertise in fisheries management, aquaculture and environmental conservation. For the past 15 years CEFAS has been at the international forefront in the development and application of fish pheromone science.

On 15 October 2002, CEFAS granted Kiotech a global exclusive licence to exploit commercially the results of CEFAS' research and development into certain pheromone-based formulations that influence fish behaviour. Further, the CEFAS Agreement affords Kiotech access to CEFAS' research resources for the implementation of the Company's product development programmes funded by the Company.

Kiotech has agreed to pay CEFAS a royalty of 6 per cent. of the Company's net sales of the Ultrabite product and all other products which are exclusively licensed to Kiotech. The licence arrangement is for a period of 20 years from May 2001. Further details of the CEFAS Agreement are set out in paragraph 8 of Part VII of this document.

## **The Science of Pheromones**

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

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

## **The Market Opportunity**

The Company's strategy is to develop pheromone based products for the commercial fishing and aquaculture markets.

The Food and Agriculture Organisation of the United Nations (“FAO”) reports that the world fisheries harvest has reached a plateau at about 90 mmt per annum with a further 40 mmt per annum being produced through aquaculture. FAO projections show that there will be demand for a further 90 mmt per annum of edible seafood by 2040, a magnitude of change which would require a doubling of the current world’s seafood supply of edible fish and shellfish. FAO estimate that world aquaculture production of fish and shellfish would need to triple by 2040 to satisfy this additional demand.

### **Products in Development**

The development of the pheromone-based technology has two principal objectives:

- firstly, the application of pheromone formulations will attempt to increase the feeding activity of farmed fish with the aim of increasing yield, reducing the amount of waste from uneaten feed and reducing time to market;
- secondly, in the longer term, the pheromone-based technology will aim to permit the use of more sustainable forms of proteins used within feeds, which are not based on fish oils or proteins, in order to protect wild fish populations from further depreciation and thus meet the demand of the aquaculture sector.

### *Aquaculture*

Initial trials for aquaculture products have already been conducted in conjunction with CEFAS on a small scale in the laboratory to assess the visual response to the introduction of the pheromone products and subsequently in large tanks in respect of tilapia and prawn which have demonstrated an increase in yield. These initial trials included a cod trial last year in Norway, which gave further support to the Directors’ and the Proposed Director’s belief in the technology. It is from this research that the basis of a new range of pheromone stimulants has been developed to use in commercial scale pond trials.

Kiotech in partnership with CEFAS and in collaboration with local aquaculture and fisheries institutes in China and Thailand have set up and are currently conducting a series of full scale commercial pond trials to assess the efficacy of its existing products on tilapia, carp, giant tiger prawns and whiteleg shrimp species. The locations for the commercial pond trials have been selected in countries that already have well developed aquaculture markets. Completion of the trials in both countries is expected towards the end of 2006. The early results are promising and are being followed with interest by a number of fish farming businesses, who are involved in the trials. If successful, the Company will aim to bring a prawn, carp and tilapia aquaculture pheromone product to the market by the middle of 2008.

Additionally the Company intends to commence research into products for trout, sea bream, and sea bass, with the trials taking place in Japan during 2007.

### *Commercial Fishing*

Trials for commercial fishing products (currently pheromone based baits and long-line fishing) are underway with The Highland and Islands University, to determine the efficacy of reconstituted baits incorporating pheromones.

Kiotech has also recently signed an agreement with a leading Japanese bait manufacturer to conduct long line commercial fishing trials for Bonito, Albacore and Bigeye. These trials are due to start later in 2006.

### *Intellectual Property*

Kiotech has patents granted in Europe and pending in the US and Japan for a pheromone based composition for the attraction of fish. The CEFAS invention regarding a pheromone which increases the feeding activity in a range of fish (“the CEFAS invention”), has resulted in an international patent application being made in the name of the UK’s Minister of Agriculture, Fisheries and Food. An exclusive licence in respect of the CEFAS invention is included in the CEFAS Agreement.

## BACKGROUND ON AGIL

### Introduction

Agil has been a trading division of Lawrence Plc since 1990. The Agil business operates in the animal feed additive market selling a number of natural feed additives which target a range of infections. Agil also seeks to improve biosecurity on farms by selling products which improve the quality of water and prolong the life of raw materials and finished feeds in bulk storage. These products are distributed through a worldwide international distributor network, with 94 per cent. of Agil's sales being exports to more than 40 countries. The geographical split by region is shown below:

	<i>Regional Share of Turnover</i>
United Kingdom	6 per cent.
Europe (excl. UK)	45 per cent.
Asia	24 per cent.
Middle East & Africa	8 per cent.
Latin America	17 per cent.

Agil generated a profit before interest and tax of £755,000 on sales of £5,235,000 for the 12 months to 31 March 2006.

### *Feed Additive Market*

Agil offers the feed manufacturer and food producer a range of natural drug-free and safe-to-use feed additives which are capable of improving the health and performance of production animals. Agil produces proprietary blends by premixing additives, which are notified in the European Community Register of Feed Additives, negating the requirement for a full "drug-type" registration in Europe.

European approved additives fall into four main categories namely:

- Technological additives (e.g. acidifiers, preservatives, antioxidants, emulsifiers, stabilizing agents, silage additives);
- Sensory additives (e.g. flavours, colourants);
- Nutritional additives (e.g. vitamins, minerals, amino acids, trace elements); and
- Zootechnical additives (e.g. digestibility enhancers, gut flora stabilizers, enzymes).

Agil's primary market is the acidifiers market to which it supplies products such as Salkil, Bactacid and Mycostat which account for approximately 70 per cent. of Agil's business. Frost & Sullivan estimated the European acidifier market to be €235 million or 359,400mt in 2003, rising to €405 million or 587,000mt by 2009. There are an estimated 70 to 120 manufacturers, traders and blenders in the European animal feed acid market.

On the 1 January 2006, the EU banned the use of all antibiotics and related drugs for growth promotion purposes in an effort to address concerns about antibiotic resistance. Consequently, there has been an increase in interest in the availability of natural and alternative animal health products, which has created commercial opportunities for businesses and companies such as Agil.

### Product Range

Agil's products are specialised formulations of pre-mixed compounds which it blends. The most important animal markets to Agil are the poultry and pig markets and in particular the breeding pig, breeder hen and poultry layer markets. Agil's product lines can be grouped under three categories:

- *Animal digestion:* Accounting for almost 70 per cent. of Agil's sales, these products aim to reduce infection in the digestive tract by complementing and boosting an animal's own immune system. This approach is different from the pharmaceutical solution, whereby antibiotics are used to combat the infection directly. A key benefit to the customer of Agil's product is the mineral carrier technology

used to prevent the early breakdown of acids in the gut, preventing diseases such as salmonella and E-coli. The mineral carrier is saturated with a blend of organic acids. With this carrier system, acids are retained through to the end of the digestion process, helping to support a healthy gut micro flora and a lower gut pH.

- *Pellet binding:* Pellet binders are gum based products used to combine feed stuffs. Their benefits include increasing fat levels in pellets and improving pellet integrity.
- *Mould control and disinfectants:* Mould control inhibits moulds and yeast in stored raw materials such as grain and finished feeds, and disinfectants are used to purify water and the living environment of production animals.

The Company intends to commit more resources to product development and the marketing of new products such as Credence, a disinfectant, natural antioxidants for the pet food sector for which Agil is currently involved in trials with a pet food manufacturer, and organic acids for use in aquaculture.

### **Organisation**

Agil has 11 employees including an experienced management team, microbiologists, animal scientists, a marketing/sales team and buying/logistics team. Its production activity is largely outsourced to a third party.

Agil has Universal Feed Assurance Standard accreditation and has also satisfied the quality assurance procedures required by the Feed Materials Assurance Scheme. These accreditations give Agil a competitive advantage over non-approved suppliers as regulatory requirements increase in the feed additive industry.

### **Distribution Network**

The majority of Agil's business is conducted through a network of distributors, except in the UK and France where sales are made direct to end users.

Agil has appointed 46 distributors around the world covering approximately 50 countries. In the year ended 31 March 2006 the most significant country was Spain with sales accounting for 7.3 per cent. of Agil's turnover. The top 15 distributors in the year ended 31 March 2006 represented 72 per cent. of total sales.

Distributors are trained by Agil's staff to ensure they are familiar with the products. This requires frequent visits to and from the UK to ensure that relationships and knowledge are developed throughout the network.

### **REASONS FOR THE ACQUISITION**

The acquisition of Agil brings to Kiotech a number of benefits, which the Directors and the Proposed Director believe will enable Kiotech to develop and exploit the pheromone opportunity more quickly. Agil can provide the Enlarged Group an established route to market through its distribution network and has existing relationships within the aquaculture industry.

The Directors and the Proposed Director believe that Kiotech can also benefit from Agil's technical expertise in chemical blending and its ability to develop different delivery mechanisms which can be applied to the pheromone stimulant. Furthermore, the Enlarged Group will be able to leverage Agil's extensive knowledge and experience of getting feed additive products registered in both EC and non-EC countries.

Agil is well established and cash generative and will be a central part of Kiotech's development strategy. The Directors and the Proposed Director believe that Agil can develop its business more aggressively by having more autonomy and giving it the necessary resources.

### **GROUP STRATEGY**

The strategy of the Board following the Acquisition will be:

- to continue to develop the global sports and leisure fishing market by supporting the sales and marketing efforts of its worldwide distributor Rapala;

- to continue to develop its pheromone based products for the aquaculture and commercial fishing markets using Agil's technical expertise and distribution network once it has commercialised products;
- to use legislative developments (including the EU ban on the use of antibiotics and related drugs for growth promotion purposes which came into force on 1st January 2006 and current EU proposals to place upper limits on salmonella levels in production animals) to drive the use of its natural feed additives products and in particular its acidifier products;
- to use its strong market position in the poultry and pig acidifiers market, and its worldwide distribution network, to investigate the opportunities for consolidation in the market. The Directors and the Proposed Director believe that there is considerable opportunity to build a coherent organisation focusing on organic acid derivatives through acquisition of:
  - companies that have similar products to Agil but different customers/distributors and geographic locations; and
  - companies with unique products, but which could benefit from being marketed and distributed through the Agil distribution network;
- to further expand Agil's distribution network to countries or regions which are becoming exporters of product to regions such as the EU or which offer significant growth opportunities such as China, Russia, Eastern Europe and Latin America.

## **CURRENT TRADING OF THE COMPANY AND AGIL AND PROSPECTS FOR THE ENLARGED GROUP**

Kiotech continues to progress with its aquaculture development programme in a financially efficient way. Key commercial pond trials in China and Thailand are showing promising results. It is not anticipated that it will have developed products for commercialisation before March 2008. Rapala, Kiotech's distributor for Ultrabite, is currently developing a range of bait products, which will be test launched in late 2006 and early 2007.

Agil's turnover in the year ended 30 March 2006 was £5,235,000. The Directors and the Proposed Director believe that there are a number of encouraging developments in the markets in which Agil operates. In particular, the poultry sector has started to recover from avian influenza and Agil has seen improved sales of its products from countries where the EU ban on antibiotic growth promoters has impacted.

## **PRINCIPAL TERMS OF THE ACQUISITION**

Under the terms of the Acquisition Agreement, the Company will acquire the business and assets of Agil, a trading division of Lawrence Plc for an aggregate consideration of £5,500,000 of which £5,250,000 will be payable in cash (the "Cash Consideration") and £250,000 of which will be satisfied by the issue of the Consideration Shares. Of the Cash Consideration approximately £555,000 will be retained by the Company in respect of certain book debts which are due to Agil, until such time as these sums are received. No payment of these sums received in respect of the relevant book debts shall be made until the expiry of 18 months from the date of Admission (or such earlier date as the Directors may agree).

As Peter Lawrence is both a director and substantial shareholder of Lawrence, the Acquisition Agreement cannot be entered into without the prior approval of Shareholders and therefore under the terms of the Option Agreement Lawrence has agreed, conditional, *inter alia*, on the passing of the Resolutions at the EGM, to sell the business and assets of Agil on the terms of the Acquisition Agreement.

Further details of the Acquisition Agreement and the Option Agreement are set out in paragraph 8 of Part VII of this document.

## **DETAILS OF THE PLACING**

The Placing comprises the issue by the Company of the 176,500,000 Placing Shares, and will raise approximately £5,295,000 at the Placing Price (£4,695,000 net of commission and expenses).



Under the Placing Agreement, JM Finn has conditionally agreed, as agent for the Company, to use its reasonable endeavours to procure placees for the Placing Shares at the Placing Price per share. The Placing has not been underwritten by JM Finn.

The Placing Shares will rank *pari passu* in all respects with the Existing Ordinary Shares and the Consideration Shares.

The Placing Agreement is conditional upon, *inter alia*, the passing of the Resolutions, the Acquisition Agreement being entered into and having been completed and Admission. In addition the Placing Agreement contains provisions entitling JM Finn to terminate the Placing Agreement prior to the completion of the Placing in certain circumstances. If this right is exercised the Placing will lapse. Further details of the Placing Agreement are set out in paragraph 8 of Part VII of this document.

## **USE OF PROCEEDS**

The Directors and the Proposed Director intend to use the £4,695,000 anticipated net proceeds of the Placing to meet the Cash Consideration element of the Acquisition.

## **DIRECTORS' AND PROPOSED DIRECTOR**

Richard S Rose, aged 50 *Executive Chairman*

Mr Rose joined the Board in March 2005 and was appointed executive chairman in July 2006. Mr Rose was Chief Executive of WF Electrical plc between 1993 and 2000 and thereafter was a director of Hagemeyer (UK) plc, a distributor of industrial products. From 2001 to 2006 he was a director of Whittard of Chelsea plc, first as Chief Executive and later as Chairman. Mr Rose received "Entrepreneur of the year Award" presented by PLC Awards 2003 in recognition of his achievements at Whittard of Chelsea plc.

Peter A Lawrence, aged 58 *Non-Executive Director*

Peter Lawrence joined the Board in August 2005 as a non-executive director. Mr Lawrence is a founder of Lawrence plc and has been an executive director ever since its formation in 1972. Mr Lawrence was awarded the "Entrepreneur of the year Award" at the 2003 AIM Awards. He is the non-executive chairman of Baronsmead AIM VCT plc and a non-executive director of Baronsmead VCT plc, First State AIM VCT plc, Algate Technologies (1998) Ltd and Higher Nature Ltd.

Richard Edwards will, with effect from Admission, be appointed a director of the Company.

Richard P Edwards, aged 40 *Proposed Director*

Richard Edwards has extensive general management and corporate strategy experience gained in the sales and distribution sector both in the UK and internationally. Mr Edwards was Director and General Manager of WF Electrical, a £140 million turnover division of Dutch multinational Hagermeyer, and gained significant experience in corporate development at Saint Gobain's UK building materials business. Richard will assume the role of Chief Executive on completion of the Acquisition.

## **LOCK-INS AND ORDERLY MARKET ARRANGEMENTS**

Each of the Directors, the Proposed Director and Lawrence has undertaken (and in the case of the Directors and the Proposed Director have agreed to procure the same in respect of any connected person), not to sell, transfer or dispose of any Ordinary Shares held by him at the date of this document in the case of the Directors and the Proposed Director and in the case of Lawrence, the Consideration Shares for a period of 12 months following Admission. In addition, thereafter the Directors, the Proposed Director and Lawrence Plc have agreed for a further 12 months (and in the case of the Directors and the Proposed Director to procure the same in respect of any connected persons) that any sale or disposal of Ordinary Shares in which they are interested will be effected through JM Finn. In each case these restrictions are subject to certain exceptions including any sale or disposal with the prior consent of JM Finn. These restrictions will apply in respect of 9,690,504 Ordinary Shares representing 3.86 per cent. of the Enlarged Issued Share Capital.

Further details of the lock-in and orderly market arrangements are set out in paragraph 8 of Part VII of this document.

## **SHARE OPTION SCHEME**

Details of the Kiotech EMI Scheme and the unapproved options which have been granted by the Company are summarised in paragraph 4 of Part VII of this document.

## **DIVIDEND POLICY**

The Directors and the Proposed Director intend to commence the payment of dividends only when it becomes commercially prudent to do so, having regard to the availability of the Company's distributable profits and funds required to finance future growth.

## **CORPORATE GOVERNANCE**

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

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

## **EXTRAORDINARY GENERAL MEETING**

At the end of this document you will find a notice convening the Extraordinary General Meeting which is to be held at the offices of Lawrence Graham LLP, 190 Strand, London WC2R 1JN at 10.00 a.m. on 27 November 2006.

As the Acquisition constitutes a reverse takeover pursuant to the AIM Rules, Shareholder approval, as set out in Resolution 1 is required. In addition the Acquisition constitutes a substantial property transaction pursuant to section 320(1)(b) of the Act and therefore Shareholder approval, as set out in Resolution 2, is required prior to the entering into of the Acquisition Agreement by the Company. Resolution 2 is conditional upon the passing of Resolution 1.

As the Company currently has insufficient authorities to allot the Placing Shares and the Consideration Shares, Resolution 3 will be proposed (i) to grant the Directors additional authority pursuant to section 80 of the Act and (ii) to disapply statutory pre-emption rights pursuant to section 95(1) of the Act in order to allot the Placing Shares and the Consideration Shares and to provide general ongoing authority for the Company to allot shares following Admission. Resolution 3 is conditional upon the passing of Resolutions 1 and 2.

## **ADMISSION, SETTLEMENT AND CREST**

Application has been made to the London Stock Exchange for the Existing Ordinary Shares to be readmitted to trading on AIM and for the Placing Shares and the Consideration Shares to be admitted to trading on AIM. Re-admission of the Existing Ordinary Shares and admission of the Placing Shares and the Consideration Shares to trading on AIM is expected to take place at 8.00 a.m. on 28 November 2006.

CREST is a paperless settlement procedure which enables securities to be evidenced other than by certificate and transferred other than by written instrument. The Articles permit the holding and transfer of Ordinary



Shares under CREST. It is expected that the Placing Shares will be admitted to CREST on 28 November 2006. CREST is a voluntary system and Shareholders who wish to receive and retain share certificates will be able to do so.

### **ENTERPRISE INVESTMENT SCHEME AND VENTURE CAPITAL TRUSTS**

The Directors have obtained confirmation from the HM Revenue & Customs that the issue of Placing Shares will rank as a qualifying investment for the purposes of the Enterprise Investment Scheme ("EIS") and will be a "qualifying holding" for the purposes of investment by Venture Capital Trusts ("VCTs").

The continuing availability of EIS reliefs and the status of the Placing Shares as a "qualifying holding" for VCT purposes will be conditional, *inter alia*, on the Company continuing to satisfy the requirements for a qualifying company throughout the period of three years from the date of the investor making his investment (under EIS), and, for VCT purposes, throughout the period the Placing Shares are held as a "qualifying holding".

### **ADDITIONAL INFORMATION**

Your attention is drawn to the Risk Factors set out in Part II and to the information contained in Parts III to VII of this document.

### **ACTION TO BE TAKEN**

You will find enclosed with this document a Form of Proxy for use in connection with the EGM. Whether or not you intend to be present at the EGM, you are asked to complete the Form of Proxy in accordance with the instructions printed on it so as to be received by the Company's registrars, Share Registrars Ltd, Craven House, West Street, Farnham, Surrey, GU9 7BR, as soon as possible but in any event not later than 10.00 a.m. on 25 November 2006. Completion of the Form of Proxy will not preclude you from attending and voting at the EGM should you so wish.

### **RECOMMENDATION**

**As the sole independent Director, I consider that the terms of the Acquisition are fair and reasonable insofar as Shareholders are concerned and I recommend that you vote in favour of the Resolutions necessary to approve and implement the Acquisition.**

**The Directors consider that the proposed Placing is in the best interests of the Company and its Shareholders as a whole. Accordingly the Directors unanimously recommend that you vote in favour of the Resolutions necessary to implement the Placing as they intend to do in respect of their own beneficial holding of 1,357,170 Ordinary Shares, representing approximately 2.05 per cent. of the Existing Ordinary Shares.**

Yours faithfully

Richard Rose  
*Executive Chairman*

## PART II

### RISK FACTORS

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

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

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

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

- **Dependence on new products**

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

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

The continued success of Kiotech depends upon:

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

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

- **Commercial agreements and dependence on certain collaborators**

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

Currently approximately 95 per cent. of Agil's products are blended by the Rutpen processing plant at Membury pursuant to an agreement with Agil Process Developments. Agil's business accounts for about a third of Rutpen's sales.

The Enlarged Group will be dependent on the successful outcome of a number of important arrangements with outside parties as part of its strategy for commercialisation and marketing of

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

A number of agreements to which members of the Enlarged Group are party are unwritten verbal agreements and therefore it is difficult for the terms of these arrangements to be determined. This may make it difficult for the Enlarged Group to enforce its rights under such agreements.

- **Protection of Intellectual Property**

*Kiotech*

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

*CEFAS*

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

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

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

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

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

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

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

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

Whilst initial trials of Kiotech’s technology in respect of tilapia, prawn and cod have yielded encouraging results, there can be no guarantee that these results will be replicated in large scale trials.

The market for pheromones is of limited size and is rapidly evolving. Market forecasts for use of pheromones vary and the speed of acceptance is unpredictable. As a result, demands and market acceptance for Kiotech’s products and services are subject to a high degree of uncertainty and risk. If this new market fails to develop, develops more slowly than expected or becomes saturated with competitors, or Kiotech’s products and services do not achieve or sustain market acceptance, Kiotech may not generate sufficient revenues to be profitable.
- Competition**

There are a number of additives designed to enhance the taste of baits with a view to attracting fish. However, the Company is not aware of any commercial product available in the market that uses identifiable fish pheromones in these attractants or additives. There can however be no assurance that Kiotech’s means of protecting its proprietary rights will be adequate or that Kiotech’s competitors will not independently develop similar technology. However, in countries where the CEFAS patent is granted, legal grounds may exist to enforce a monopoly over the use of certain fish pheromones, including “Factor X”, to attract fish.
- Business growth and support**

To succeed in the implementation of the Enlarged Group’s business strategy, the Enlarged Group’s management team must rapidly develop its technology, seek out new alliances and expand its customer base, while managing anticipated growth. The growth is likely to place a significant strain on the Enlarged Group’s managerial, operational and financial resources and systems. Kiotech anticipates hiring additional personnel to assist in the continued improvement of its technologies. To execute the Enlarged Group’s anticipated growth successfully, it must attract and retain qualified personnel and manage and train them effectively. The Enlarged Group’s anticipated growth will also place additional strain on the Enlarged Group’s suppliers, resulting in increased need for it to carefully monitor for quality assurance. Any failure by the Enlarged Group to manage its growth effectively could have an adverse effect on the Enlarged Group’s business.

- **Retention of key personnel**

The Enlarged Group's future success is largely dependent on the personal efforts and abilities of its senior management. Any loss of key employees or advisers or the inability to attract or retain other qualified employees or advisers could have a material adverse effect on the Enlarged Group's results of operations and financial condition. In particular Murray Hyden, Managing Director of Agil, will be a key employee of the Enlarged Group both in terms of Agil's product development and formulations and client relationships.

- **Requirement for additional funds**

Various elements of the Enlarged Group's business and growth strategies may require additional capital. There can be no guarantee that funds will be available to Kiotech on satisfactory terms when needed. To the extent that Kiotech raises additional equity capital, it would have a dilutive effect on existing Shareholders. If adequate funds are not available, Kiotech will not be able to continue to grow at the planned rate or otherwise achieve certain management objectives. Additionally, Kiotech also may have to reduce its research and development, sales and marketing or customer service staff.

- **Emerging Markets**

Following the Acquisition, the Enlarged Group will trade with customers in many different countries, some of which are classed as developing or emerging countries where their economics could be considered less stable than in the UK. In addition, the lengthy shipping times to some parts of the world mean that customers extend payment terms. Both of these possibilities increase the risk of bad debts. However, as no one customer of Agil accounts for more than 10 per cent. of its business, this gives an element of diversification.

- **Environmental Factors**

Agil's sales are susceptible to certain animal related diseases such as avian influenza, BSE and foot and mouth.

- **Government actions**

All governments reserve the right to amend their policies in relation to fisheries management and environmental protection. These policies are subject to change at any time in any country and can impact profoundly upon the fish industry as a whole or in part. As with other environmental groups, the Company has no immunity from governmental actions.

- **Manufacturing, Marketing and Sales**

There can be no assurance that Kiotech or its partners will be capable of producing pheromone based products in commercial quantities at acceptable cost or that, if introduced, they will achieve market acceptance.

- **Pheromones**

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

- **Regulatory approvals**

CEFAS are presently discussing with other Government Agencies whether the pheromone technology is required to be regulated for use within the aquaculture industry. To date, no regulatory impediments have arisen, but investors should be aware that existing regulations may affect the products'

technological ability to meet regulatory requirements, or new regulations could be introduced in various territories, which could affect the products' technological ability to meet regulatory requirements.

- **Share price volatility and liquidity**

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

The Placing Price has been determined by negotiations between the Directors, and JM Finn and the current share price of the Company on AIM. The market for the Ordinary Shares may be highly volatile and subject to wide fluctuations in price in response to a variety of factors, which could lead to losses for Shareholders. These factors include:

announcement of technological innovations, changes in government policies, changes in legislation and economic conditions or new products and services by Kiotech or its competitors, fluctuations in Kiotech's operating results, changes in economic performance or market valuations of similar businesses, announcements by Kiotech or its competitors of significant acquisitions, strategic partnerships, joint ventures or capital commitments, additions or departures of key personnel, litigation and press, newspaper and other media reports.

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

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

- **Forward looking statements**

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

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

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

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

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

- **Investment risk and AIM**

The Existing Ordinary Shares and the Placing Shares will be quoted on AIM rather than the Official List. The rules of AIM are less demanding than those of the Official List and an investment in shares quoted on AIM may carry a higher risk than an investment in shares quoted on the Official List. AIM has been in existence since June 1995 but its future success and liquidity in the market for the Company's securities cannot be guaranteed. Investors should be aware that the value of the Ordinary

Shares and Placing Shares may be volatile and may go down as well as up and investors may therefore not recover their original investment.

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

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



## **PART III**

### **FINANCIAL INFORMATION ON KIOTECH INTERNATIONAL PLC**

#### **Introduction**

The financial information in this Part III does not constitute statutory financial statements within the meaning of section 240 of the Companies Act 1985 and has been extracted, without material adjustment, from the published audited consolidated financial statements for the years ended 31 December 2003, 31 December 2004 and 31 December 2005.

Unqualified audit reports, as defined by Section 235 of the Companies Act 1985, and which did not contain a statement under Section 237 (2) or (3) of the Companies Act 1985, have been given by FW Stephens, auditors for the years ended 31 December 2003, 31 December 2004, and 31 December 2005.

#### **Kiotech International PLC**

##### ***“Report of the auditors for the year ended 31 December 2005***

##### ***Independent Auditors’ Report to the members of Kiotech International Plc***

We have audited the group and parent company financial statements of Kiotech International Plc on pages 7 to 22 for the year ended 31 December 2005, which comprise of the group profit and loss account, the group and company balance sheet, the group cash flow statement and the related notes. These financial statements have been prepared under the historical cost convention and the accounting policies set out therein.

This report is made solely to the company’s members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company’s members those matters we are required to state to them in an auditor’s report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company’s members, as a body for our audit work, for this report, or for the opinion we have formed.

##### ***Respective responsibilities of the directors and auditors***

As described in the statement of directors’ responsibilities on page 7, the company’s directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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

We read the Directors’ Report and the Chairman’s and executive directors’ statement and consider the implications for our report if we become aware of any apparent misstatements within it.

##### ***Basis of audit opinion***

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company’s circumstances, consistently applied and adequately disclosed.



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

### ***Opinion***

In our opinion the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company and Group's affairs as at 31 December 2005 and of the loss and cash flow of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985."

## **Kiotech International PLC**

### ***"Report of the auditors for the year ended 31 December 2004***

#### ***Independent Auditors' Report to the members of Kiotech International Plc***

We have audited the financial statements of Kiotech International Plc for the year ended 31 December 2004 which comprise the principal accounting policies, the consolidated profit and loss account, the balance sheets, the consolidated cash flow statement, and notes 1 to 20. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

#### ***Respective responsibilities of directors and auditors***

The directors' responsibilities for preparing the directors' report and the financial statements in accordance with United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

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

We read other information contained in the annual report and consider whether it is consistent with the audited financial statements. This other information comprises only the Chairman's statement and the report of the Directors. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

#### ***Basis of opinion***

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evince relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

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

### ***Opinion***

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2004 and of the loss of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.”

## **Kiotech International PLC**

### ***“Report of the auditors for the year ended 31 December 2003***

#### ***Independent Auditors’ Report to the members of Kiotech International Plc***

We have audited the financial statements of Kiotech International Plc for the year ended 31 December 2003 which comprise the principal accounting policies, the consolidated and loss account, the balance sheets, the consolidated cash flow statement, and notes 1 to 20. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company’s members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company’s members those matters we are required to state to them in an auditors’ report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company’s members as a body, for our audit work, for this report, or for the opinions we have formed.

#### ***Respective responsibilities of directors and auditors***

The directors’ responsibilities for preparing the directors’ report and the financial statements in accordance with United Kingdom law and accounting standards are set out in the statement of directors’ responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors’ report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors’ remuneration and transactions with the Company is not disclosed.

We read other information contained in the annual report and consider whether it is consistent with the audited financial statements. This other information comprises only the Chairman’s statement and the report of the Directors. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

#### ***Basis of opinion***

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group’s circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the

financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

### ***Opinion***

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2003 and of the loss of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.”

### **Principal accounting policies**

#### *Basis of preparation*

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

The principal accounting policies of the Group have remained unchanged from the previous year, 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.

#### *Basis of consolidation*

The consolidated financial statements comprise the accounts of the Company and its trading subsidiaries. The results of subsidiary undertakings acquired and disposed of during the year have been included from the date of acquisition and to the date of disposal. Profit or losses on intra-group transactions are eliminated in full.

#### *Turnover*

Turnover represents net invoiced sales of goods, excluding value added tax.

#### *Tangible fixed assets*

Tangible fixed assets are stated at cost or valuation, net of depreciation and any provision for impairment.

Depreciation is provided at the following annual rates in order to write off each asset over its estimated useful life.

Plant and machinery	–	33 per cent. on cost
Fixtures and fittings	–	33 per cent. on cost
Office equipment	–	33 per cent. on cost

#### *Investments*

Investments are stated at cost less amounts written off.

#### *Stock*

Stocks are valued at the lower of cost and net realisable value, after making due allowance for obsolete and slow moving items.

Cost includes all direct expenditure and an appropriate proportion of fixed and variable overheads.

#### *Deferred taxation*

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

#### *Foreign currencies*

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

#### *Research and development*

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

#### *Financial instruments*

Income and expenditure arising on financial instruments is recognised on the accruals basis, and credited or charged to the profit and loss account in the financial period to which it relates.

#### *Operating leases*

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

## Consolidated profit and loss accounts

		<i>Year ended 31 December 2003 £000</i>	<i>Year ended 31 December 2004 £000</i>	<i>Year ended 31 December 2005 £000</i>
	<i>Notes</i>			
<b>Turnover</b>	1	180	217	158
Cost of sales		(132)	(148)	(114)
Provision for slow moving stock write off	8	—	—	(215)
<b>Gross profit/(loss)</b>		48	69	(171)
Administrative expenses		(565)	(447)	(565)
<b>Operating loss</b>		(517)	(378)	(736)
Net interest	2	(1)	6	39
<b>Loss on ordinary activities before taxation</b>		(518)	(372)	(697)
Tax on loss on ordinary activities	4	8	26	—
Loss retained and transferred from reserves	13	(510)	(346)	(697)
Basic loss per share (pence)	5	(2.02)	(1.07)	(1.38)

All transactions arise from continuing operations

There were no recognised gains or losses other than the loss for the year.

## Consolidated balance sheet

		<i>As at</i> <i>31 December</i> <i>2003</i> <i>£000</i>	<i>As at</i> <i>31 December</i> <i>2004</i> <i>£000</i>	<i>As at</i> <i>31 December</i> <i>2005</i> <i>£000</i>
	<i>Notes</i>			
<b>Fixed assets</b>				
Tangible assets	6	<u>4</u>	<u>4</u>	<u>2</u>
<b>Current assets</b>				
Stocks	8	318	304	31
Debtors	9	75	76	95
Cash at bank and in hand		<u>41</u>	<u>477</u>	<u>1,785</u>
		434	857	1,911
<b>Creditors: amounts falling due within one year</b>	10	<u>(499)</u>	<u>(242)</u>	<u>(146)</u>
<b>Net current (liabilities)/assets</b>		<u>(65)</u>	<u>615</u>	<u>1,765</u>
<b>Total assets less current liabilities</b>		<u>(61)</u>	<u>619</u>	<u>1,767</u>
<b>Capital and reserves</b>				
Called up share capital	12	2,101	2,187	2,504
Share premium account	13	4,184	5,011	6,504
Other reserves	13	–	113	148
Profit and loss account	13	<u>(6,346)</u>	<u>(6,692)</u>	<u>(7,389)</u>
<b>Equity shareholders' (deficit)/funds</b>	14	<u>(61)</u>	<u>619</u>	<u>1,767</u>

## Consolidated cash flow statement

		<i>Year ended 31 December 2003 £000</i>	<i>Year ended 31 December 2004 £000</i>	<i>Year ended 31 December 2005 £000</i>
	<i>Notes</i>			
<b>Net cash outflow from operating activities</b>	15	(487)	(478)	(542)
<b>Returns on investments and servicing of finance</b>				
Interest received		1	7	39
Interest paid		(2)	(2)	–
		(1)	5	39
<b>Capital expenditure and financial investment</b>				
Purchase of tangible fixed assets		–	(4)	–
<b>Financing</b>				
Issue of shares		465	934	2,216
Expenses paid in connection with share issues		(1)	(21)	(405)
		464	913	1,811
(Decrease)/increase in cash	16, 17	(24)	436	1,308

## Notes to the financial statements

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

Turnover is attributable to the principal activity of the Company.

An analysis of turnover by geographical markets is given below:

	<i>Year ended 31 December 2003 £000</i>	<i>Year ended 31 December 2004 £000</i>	<i>Year ended 31 December 2005 £000</i>
Europe	48	46	72
Rest of the World	132	171	86
	<u>180</u>	<u>217</u>	<u>158</u>

The loss on ordinary activities is stated after charging:

	<i>Year ended 31 December 2003 £000</i>	<i>Year ended 31 December 2004 £000</i>	<i>Year ended 31 December 2005 £000</i>
Auditors' remuneration:			
Audit services	17	18	21
Non-audit services	4	4	11
Depreciation	6	4	2
Loss on fixed asset investment	–	–	–
Operating lease payments on buildings	37	8	–
Operating lease payments – other	11	4	–
Research and development	33	58	128
Issue of share options	–	113	35
	<u>–</u>	<u>113</u>	<u>35</u>

### 2 Net interest

	<i>Year ended 31 December 2003 £000</i>	<i>Year ended 31 December 2004 £000</i>	<i>Year ended 31 December 2005 £000</i>
On bank and other loans and overdrafts	(2)	(2)	–
Other interest receivable	1	8	39
	<u>(1)</u>	<u>6</u>	<u>39</u>



### 3 Directors and employees

Staff costs during the year, including Directors, were as follows:

	<i>Year ended 31 December 2003 £000</i>	<i>Year ended 31 December 2004 £000</i>	<i>Year ended 31 December 2005 £000</i>
Wages and salaries	207	115	200
Social security costs	21	15	17
	<u>228</u>	<u>130</u>	<u>217</u>

The average number of employees, including Directors, during the year was:

	<i>2003 Number</i>	<i>2004 Number</i>	<i>2005 Number</i>
Management and administration	<u>7</u>	<u>7</u>	<u>6</u>

Remuneration in respect of Directors was as follows:

	<i>Year ended 31 December 2003 £000</i>	<i>Year ended 31 December 2004 £000</i>	<i>Year ended 31 December 2005 £000</i>
Emoluments	121	52	105
Compensation for loss of office	16	–	–
	<u>137</u>	<u>52</u>	<u>105</u>

This remuneration can be split by Director as follows:

	<i>Salary and fees 2003 £000</i>	<i>Salary and fees 2004 £000</i>	<i>Salary and fees 2005 £000</i>
D C G Gyle-Thompson	24	2	20
J B Loftus	61	50	40
N Scott	36	–	25
P A Lawrence	–	–	3
R Rose	–	–	17
G H Dodd	16	–	–

Mr Gyle-Thompson's fees are paid to Onslow Boyd Venture Capital Limited, a company in which he acts as chairman.

Mr Lawrence's fees are paid to Lawrence Plc, a company in which he acts as Chairman.

Mr Rose has 25 per cent. of his fees paid to Electro Switch Limited, a company in which he acts as a director.

#### 4 Tax on loss on ordinary activities

The taxation credit represents:

	<i>Year ended 31 December 2003 £000</i>	<i>Year ended 31 December 2004 £000</i>	<i>Year ended 31 December 2005 £000</i>
UK corporation tax at 30% (2004: 30%; 2003: 30%)	(8)	(14)	–
Adjustments to prior years	–	(12)	–
	<u>(8)</u>	<u>(26)</u>	<u>–</u>

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

	<i>Year ended 31 December 2003 £000</i>	<i>Year ended 31 December 2004 £000</i>	<i>Year ended 31 December 2005 £000</i>
Loss on ordinary activities before taxation	(518)	(372)	(697)
Loss on ordinary activities before taxation multiplied by standard rate of UK corporation tax of 30% (2004: 30%; 2003: 20%)	(104)	(112)	(209)
Effects of:			
Non deductible expenses	3	64	17
Capital allowances	–	–	(4)
Increase in trading losses	101	27	196
Other short term timing differences	–	22	–
Research and development tax credited (surrender of losses)	(8)	(14)	–
Adjustment in respect of prior years	–	(13)	–
	<u>(8)</u>	<u>(26)</u>	<u>–</u>

Losses amounting to approximately £5.5 million remain available for offset at 31 December 2005 (2004: £4.8m; 2003 £4.5m) against future trading profit although these are not recognised in the balance sheet.

#### 5 Loss per share

The calculation of the basic loss per share is based on the loss for the year being £697,171 (2004: £346,077; 2003: £510,115) divided by the weighted average number of shares in issue during the year, being 50,546,959 (2004: 32,230,037; 2003: 25,289,261) shares. The calculation of diluted earnings per share is based on the basic earnings per share, adjusted to allow for the issue of shares, on the assumed conversion of all dilutive options and other dilutive potential ordinary shares.

## 6 Tangible fixed assets

	<i>Office equipment £000</i>	<i>Fixtures and fittings £000</i>	<i>Plant and machinery £000</i>	<i>Total £000</i>
<b>Cost:</b>				
At 1 January 2003	14	3	–	17
Additions	–	–	–	–
At 31 December 2003	14	3	–	17
Additions	1	1	2	4
Disposals	(13)	(2)	–	(15)
At 31 December 2004	2	2	2	6
Disposals	(1)	–	–	(1)
At 31 December 2005	1	2	2	5
<b>Depreciation:</b>				
At 1 January 2003	6	1	–	7
Provided in the year	5	1	–	6
At 31 December 2003	11	2	–	13
Provided in the year	3	1	–	4
Disposals	(13)	(2)	–	(15)
At 31 December 2004	1	1	–	2
Provided in the year	1	–	1	2
Disposals	(1)	–	–	(1)
At 31 December 2005	1	1	1	3
<b>Net book amount:</b>				
At 31 December 2003	3	1	–	4
At 31 December 2004	1	1	2	4
At 31 December 2005	–	1	1	2

## 7 Fixed asset investments

At 31 December 2005 the Company had interests in the following subsidiaries:

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

## 8 Stocks

	<i>As at</i> <i>31 December</i> <i>2003</i> <i>£000</i>	<i>As at</i> <i>31 December</i> <i>2004</i> <i>£000</i>	<i>As at</i> <i>31 December</i> <i>2005</i> <i>£000</i>
Raw materials	5	19	18
Work in progress	6	5	13
Finished goods	307	280	–
	<u>318</u>	<u>304</u>	<u>31</u>

The Directors consider that there would be a stock of sports fishing products that, under the new distribution agreements with Rapala, may take a considerable time to sell. Therefore a total provision of £215,376 for that stock has been made for the year ended 31 December 2005 (2004: £Nil; 2003: £Nil).

## 9 Debtors

	<i>As at</i> <i>31 December</i> <i>2003</i> <i>£000</i>	<i>As at</i> <i>31 December</i> <i>2004</i> <i>£000</i>	<i>As at</i> <i>31 December</i> <i>2005</i> <i>£000</i>
Trade debtors	15	30	11
Other debtors	24	26	62
Corporation tax	32	15	2
Prepayments	4	5	20
	<u>75</u>	<u>76</u>	<u>95</u>

## 10 Creditors: amounts falling due within one year

	<i>As at</i> <i>31 December</i> <i>2003</i> <i>£000</i>	<i>As at</i> <i>31 December</i> <i>2004</i> <i>£000</i>	<i>As at</i> <i>31 December</i> <i>2005</i> <i>£000</i>
Trade creditors	258	91	117
Social security and other taxes	2	5	–
Other creditors	71	2	2
Accruals	168	144	27
	<u>499</u>	<u>242</u>	<u>146</u>

## 11 Financial instruments

The disclosures in this note deal with financial assets and financial liabilities defined in Financial Reporting Standard 25 “Financial Instruments: Disclosure and Presentation” (FRS25). Certain financial assets, such as investment in subsidiary companies, are excluded from the scope of these disclosures.

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

The Group’s circumstances and operations do not require the use of complex financial instruments.

### *Short-term Debtors and Creditors*

As permitted by FRS 25, short-term debtors and creditors have been excluded from these disclosures, other than currency disclosures.

## 11 Financial instruments (continued)

### Currency risk

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

The Group held the following financial assets at 31 December 2005, 31 December 2004 and 31 December 2003.

	<i>As at 31 December 2003 £000</i>	<i>As at 31 December 2004 £000</i>	<i>As at 31 December 2005 £000</i>
Cash at bank and in hand	41	477	1,785

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

## 12 Called up share capital

	<i>As at 31 December 2003 £</i>	<i>As at 31 December 2004 £</i>	<i>As at 31 December 2005 £</i>
Authorised: 2,000,000,000 (2004: 2,000,000,000; 2003: 115,892,472) ordinary shares of 1p each	1,158,925	20,000,000	20,000,000
1,859,672 'A' shares of 99p each	1,841,075	1,841,075	1,841,075
	<u>3,000,000</u>	<u>21,841,075</u>	<u>21,841,075</u>
Allotted, issued and fully paid: 66,245,362 (2004: 34,588,362; 2003: 25,953,645) ordinary shares of 1p	259,536	345,883	662,454
1,859,672 'A' shares of 99p each	1,841,075	1,841,075	1,841,075
	<u>2,100,611</u>	<u>2,186,958</u>	<u>2,503,529</u>

On 20 February 2003, the Company made an allotment of 4,850,000 ordinary shares of 1p each. The difference between the total consideration received of £485,000 and the total nominal value of £48,500 has been credited to the share premium account. Issue costs of £21,410 in respect of this transaction have been charged against the share premium account.

On 16 January 2004, the Company made an allotment of 5,572,640 ordinary shares of 1p each. The difference between the total consideration received of £390,085 and the total nominal value has been credited to the share premium account. Issue costs of £20,707 in respect of this transaction have been charged against the share premium account.

On 18 June 2004, the authorised share capital of the Company was increased from £3,000,000 to £21,841,075 by the creation of 1,884,107,528 additional ordinary shares of 1p each.

The Company also allotted 2,375,410 ordinary shares of 1p each on 1 October 2004 as a result of the exercise of warrants that were granted in 2001 with total consideration of £475,082 received by the Company.

## 12 Called up share capital (continued)

Under the Company's existing share option scheme, options were held as at 31 December 2005 for 5,325,883 ordinary shares of 1p each (2004: 3,600,000; 2003: 4,975,410) as follows:

<i>Number of shares</i>	<i>Option price per share pence</i>	<i>Option period ending</i>
2,980,000	14	31.12.06
345,883	17.2	30.06.08
500,000	7	15.03.15
500,000	7.25	21.10.15
1,000,000	7.38	29.11.15

On 29 June 2005 31,657,000 shares were issued when the Company was listed on the AIM market. The issue price was 7p and the difference between the total consideration received of £2,215,980 and the total nominal value of £316,570 has been credited to the share premium account.

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

Under the Company's existing share option scheme, options were held as at 31 December 2005 for 5,325,883 1p ordinary shares (2004: 3,600,000; 2003: 3,160,000) as follows:

<i>Number of shares</i>	<i>Option price per share pence</i>	<i>Option period ending</i>
2,980,000	14	31.12.06
345,883	17.2	30.06.08
500,000	7	15.03.15
500,000	7.25	21.10.15
1,000,000	7.38	29.11.15

## 13 Share premium account and reserves

	<i>Share premium account £000</i>	<i>Other reserves £000</i>	<i>Profit and loss account £000</i>
At 1 January 2003	3,769	–	(5,836)
Retained loss for the year	–	–	(510)
Premium on allotment during the year	436	–	–
Issue costs	(21)	–	–
At 31 December 2003	4,184	–	(6,346)
Retained loss for the year	–	–	(346)
Premium on allotment during the year	848	–	–
Issue costs	(21)	–	–
Issue of share options	–	113	–
At 31 December 2004	5,011	113	(6,692)
Retained loss for the year	–	–	(697)
Issue of share options below market value	–	35	–
Share premium on shares issued during the year	1,899	–	–
Cost of AIM floatation	(406)	–	–
At 31 December 2005	6,504	148	(7,389)

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

**14 Reconciliation of movements in shareholders' funds**

	<i>Year ended 31 December 2003 £000</i>	<i>Year ended 31 December 2004 £000</i>	<i>Year ended 31 December 2005 £000</i>
Loss for the financial year	(510)	(346)	(697)
Issue of shares	463	913	1,810
Issue of share options	–	113	35
Shareholders' (deficit)/funds at start of year	(14)	(61)	619
Shareholders' (deficit)/funds at end of year	<u>(61)</u>	<u>619</u>	<u>1,767</u>

**15 Net cash outflow from operating activities**

	<i>Year ended 31 December 2003 £000</i>	<i>Year ended 31 December 2004 £000</i>	<i>Year ended 31 December 2005 £000</i>
Operating loss	(517)	(378)	(736)
Depreciation	6	4	2
Loss on fixed asset investment	–	–	–
Issue of share options	–	113	35
Decrease in stocks	108	14	273
Decrease/(increase) in debtors	31	25	(19)
(Decrease) in creditors	(115)	(256)	(97)
Net cash outflow from operating activities	<u>(487)</u>	<u>(478)</u>	<u>(542)</u>

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

	<i>Year ended 31 December 2003 £000</i>	<i>Year ended 31 December 2004 £000</i>	<i>Year ended 31 December 2005 £000</i>
(Decrease)/increase in cash in the year	(24)	436	1,308
Movement in net funds in the year	(24)	436	1,308
Net funds at start of year	65	41	477
Net funds at end of year	<u>41</u>	<u>477</u>	<u>1,785</u>

**17 Analysis of changes in net funds**

	<i>At 1 January 2003 £000</i>	<i>Cash flow £000</i>	<i>At 31 December 2003 £000</i>	<i>At Cash flow £000</i>	<i>At 31 December 2004 £000</i>	<i>Cash flow £000</i>	<i>At 31 December 2005 £000</i>
Cash at bank and in hand	65	(24)	41	436	477	1,308	1,785

**18 Capital commitments**

The Group had no authorised capital commitments as at 31 December 2005, 31 December 2004 or 31 December 2003.

**19 Contingent liabilities**

There were no contingent liabilities at 31 December 2005, 31 December 2004 and 31 December 2003.

**20 Leasing commitments**

The Group had no leasing commitments under non-cancellable operating leases (2004: £206; 2003: £41,181).



## PART IV

### INTERIM RESULTS FOR KIOTECH INTERNATIONAL PLC

Below is a statement released by Kiotech on 27 September 2006.

#### KIOTECH INTERNATIONAL plc

##### Interim Results

Kiotech International plc, the innovator of pheromone biotechnology for fish farming, commercial and sports fishing today announces its interim results for the six months ended 30 June 2006.

##### Highlights

- Commercial pond trials are being followed with interest by a number of fish farming businesses, who are actively involved in the trials.
- Rapala introducing its new Ultrabite bait range to selected distributors.
- Kiotech cuts administration expenses by nearly 50 per cent. compared to last year.

Richard Rose, Executive Chairman of Kiotech, said: 'Kiotech in conjunction with CEFAS is undertaking a number of key commercial pond trials in China and Thailand. These trials, which are at the half way stage, are showing promising results, with the final data awaited at the conclusion of the trials in November 2006.'

For further information, please contact:

Kiotech International plc – Richard Rose, Executive Chairman	07836 250474
J.M.Finn & Co Ltd – Matthew Robinson/Charles Cunningham	020 7628 9688
Spiro Financial – Anthony Spiro	020 8336 6196

##### Chairman's statement

###### *Six months to 30 June 2006*

Kiotech continues to make good progress with its aquaculture development programme, testing the efficacy of its pheromone feed stimulants on a number of different species in various parts of the world. The early results are promising and are being followed with interest by a number of fish farming businesses, who are involved in the trials.

##### Sports fishing

Our Ultrabite pheromone based fish-feeding product is aimed at the global sports and leisure fishing market. Ultrabite can be used in all forms of sports and leisure fishing with differing formulations for different species. Last year we changed our distribution arrangements to capitalize on the worldwide potential of this product. Kiotech appointed Rapala VMC Corp as its exclusive worldwide distributor for Ultrabite. Rapala, which has its headquarters in Finland, is a leading distributor of sports fishing lures with global distribution. Rapala is developing a range of unique bait products with Ultrabite added, using the Kiotech pheromone technology. The new bait products will be sold through Rapala's global distribution network, which hitherto has only sold their world leading hard and soft lures.

We are excited by the opportunities offered to us by Rapala and hopeful that sales will replicate the significant increase in turnover of one of Kiotech's long established distributors when they also incorporated the pheromone attractants in their own range of traditional baits. The bait market is new to Rapala and will be an opportunity to tap a growing market and increase their range of products to the sports fishing market. Rapala's new bait range was introduced to selected distributors at the Efttex Fair in Brussels in early July and Rapala have confirmed that these will be test launched in selected regions in late 2006 and early 2007.

## **Aquaculture**

Kiotech is conducting a series of tank and commercial pond trials to assess, in a quantifiable and rigorous manner, the efficacy of its pheromone feed stimulants developed in conjunction with CEFAS for the aquaculture market. The results of these trials will enable Kiotech, in partnership with CEFAS, to assess the commercial priorities for the project. CEFAS (The Centre for Environment, Fisheries and Aquaculture Science) is a UK Government Agency and leader in its field. Results from the tank trials initiated last year were sufficiently encouraging to enable the next stage of testing, commercial pond trial, to commence. The locations for these commercial pond trials have been selected in countries that already have well developed aquaculture markets. China is the world's largest producer of farmed fish with current production in the order of 35million metric tonnes annually and growing rapidly. Thailand has a rapidly expanding prawn aquaculture industry with a 2005 production of 415,000mt. Kiotech continues to conduct a commercial pond trial on whiteleg shrimp, which is a large warm water prawn, in Thailand. Commercial pond trials for tilapia and carp are being conducted in China. Completion of the trials in both countries is expected in the coming months and we are encouraged by the performance of the trials so far.

## **Results**

Trading for the six months to 30 June 2006 saw sales of £33,447, compared with £104,620 in the equivalent period last year. The drop in sales was caused by the withdrawal of the original Ultrabite range ahead of the imminent launch by Rapala of the new products. The Board remains focused on keeping costs under tight control and I am pleased to report that following the actions announced in the Annual Report our administrative costs in the first half of 2006 were £167,222 nearly 50 per cent. lower than last year's level of £313,939.

## **Investor communications**

The company is a strong advocate of investor communications and strives to ensure that all shareholders are kept informed of Kiotech's progress. The company has recently re-launched its web site [www.kiotech.com](http://www.kiotech.com) and includes background information on the business and its markets together with investor information and presentations.

## **Board changes**

On 6 July 2006, after the period end, we announced the resignation of Nicholas Scott and David Gyle-Thompson. The Board would like to record the Company's appreciation of the contribution made by both over the last five years. Richard Rose assumed the role of Executive Chairman.

## **Outlook**

The coming months will start to give an early indication of demand for Ultrabite as Rapala commences distribution of products listed in its 2007 catalogue. We expect the initial rate of take up will be slow, as naturally conservative anglers begin testing the new product. Sales should then build as the effectiveness of the product is demonstrated. Our aquaculture business is still in the development phase and as our testing programme advances we remain encouraged by the results.

These positive results, coupled with interest shown by various commercial fish farms, give us continued encouragement for the future.

## **Richard Rose**

*Executive Chairman*

## CONSOLIDATED PROFIT AND LOSS ACCOUNT

	<i>Six months ended 30 June 2006 (unaudited) £</i>	<i>Six months ended 30 June 2005 (unaudited) £</i>	<i>Year ended 31 December 2005 (audited) £</i>
<b>TURNOVER</b>			
Continuing operations	33,447	104,620	159,050
Provision for slow-moving stock write off	–	–	(215,376)
Cost of sales	(19,832)	(62,331)	(114,358)
<b>GROSS PROFIT/(LOSS)</b>	<u>13,615</u>	<u>42,289</u>	<u>(170,684)</u>
Administrative expenses	(167,222)	(313,939)	(565,664)
Exceptional administrative expenses	–	(284,745)	
<b>OPERATING LOSS</b>	<u>(153,607)</u>	<u>(556,395)</u>	<u>(736,348)</u>
Net interest received	42,240	4,250	39,177
<b>LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION</b>	<u>(111,367)</u>	<u>(552,145)</u>	<u>(697,171)</u>
Taxation	–	–	–
<b>LOSS FOR PERIOD</b>	<u>(111,367)</u>	<u>(552,145)</u>	<u>(697,171)</u>
<b>RETAINED LOSS TRANSFERRED TO RESERVES</b>	<u>(111,367)</u>	<u>(552,145)</u>	<u>(697,171)</u>
<b>BASIC LOSS PER SHARE</b>	<u>(0.17)</u>	<u>(1.58)</u>	<u>(1.38)</u>
<b>DILUTED LOSS PER SHARE</b>	<u>(0.16)</u>	<u>–</u>	<u>(1.33)</u>

# **CONSOLIDATED BALANCE SHEET**

	<i>Six months ended 30 June 2006 (unaudited) £</i>	<i>Six months ended 30 June 2005 (unaudited) £</i>	<i>Year ended 31 December 2005 (audited) £</i>
<b>FIXED ASSETS</b>			
Tangible assets	1,979	2,919	2,140
<b>CURRENT ASSETS</b>			
Stock	39,415	265,074	30,901
Debtors	37,563	407,066	94,545
Cash at bank and in hand	1,634,650	1,955,165	1,785,290
	<u>1,711,628</u>	<u>2,627,305</u>	<u>1,910,736</u>
<b>CREDITORS</b>			
Amounts falling due within one year	(58,039)	(414,296)	(145,941)
<b>NET CURRENT ASSETS</b>	<u>1,653,589</u>	<u>2,213,009</u>	<u>1,764,795</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>	<u>1,655,568</u>	<u>2,215,928</u>	<u>1,766,935</u>
<b>NET ASSETS</b>	<u>1,655,568</u>	<u>2,215,928</u>	<u>1,766,935</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	2,503,529	2,503,529	2,503,529
Share premium account	6,504,675	6,808,642	6,504,675
Other reserves	147,500	147,500	147,500
Profit and loss account	(7,500,136)	(7,243,743)	(7,388,769)
<b>SHAREHOLDERS' FUNDS</b>	<u>1,655,568</u>	<u>2,215,928</u>	<u>1,766,935</u>

# **CONSOLIDATED CASH FLOW STATEMENT**

	<i>Six months ended</i>	<i>Year ended</i>
	<i>30 June</i>	<i>31 December</i>
	<i>2006</i>	<i>2005</i>
	<i>(unaudited)</i>	<i>(audited)</i>
	<i>£</i>	<i>£</i>
<b>NET CASH OUTFLOW FROM OPERATING ACTIVITIES</b>	(192,618)	(541,433)
<b>RETURNS ON INVESTMENT AND SERVICING OF FINANCE</b>		
Interest received	42,240	39,247
Interest paid	–	(70)
<b>NET CASH INFLOW FROM RETURNS ON INVESTMENT AND SERVICING OF FINANCE</b>	42,240	39,177
<b>CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT</b>		
Purchase of tangible fixed assets	(262)	–
<b>NET CASH OUTFLOW FROM CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT</b>	(262)	–
<b>FINANCING</b>		
Issue of shares	–	2,215,991
Increase in borrowing (net)	–	(405,397)
<b>NET CASH INFLOW FROM FINANCING</b>	–	1,810,594
<b>(DECREASE)/INCREASE IN CASH</b>	<u>(150,640)</u>	<u>1,308,338</u>

## Notes

### (1) RECONCILIATION OF OPERATING PROFIT TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	<i>30 June 2006</i>	<i>31 December 2005</i>
	<i>£</i>	<i>Total £</i>
Operating loss	(153,607)	(736,348)
Depreciation charge	424	1,620
Issue of shares	–	35,000
(Increase)/decrease in stocks	(8,514)	273,051
Decrease/(increase) in debtors	56,981	(18,730)
(Decrease) in creditors	(87,902)	(96,026)
Net cash outflow from operating activities	<u>(192,618)</u>	<u>(541,433)</u>

### (2) RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	<i>30 June 2006</i>	<i>31 December 2005</i>
	<i>£</i>	<i>£</i>
Increase in cash in the period	(150,640)	1,308,338
Movement of net funds in the period	(150,640)	1,308,338
Net funds at the start of the period	<u>1,785,290</u>	<u>476,952</u>
Net funds at the end of the period	<u>1,634,650</u>	<u>1,785,290</u>

### (3) RECONCILIATION ANALYSIS OF CHANGES IN NET DEBT

	<i>At 1 January 2006</i>	<i>Cash flow</i>	<i>At 30 June 2006</i>
	<i>£</i>	<i>£</i>	<i>£</i>
Cash at bank and in hand	<u>1,785,290</u>	<u>(150,640)</u>	<u>1,634,650</u>

# KIOTECH INTERNATIONAL plc

## NOTES TO THE INTERIM REPORT

The summarised results to the half year to 30 June 2006, which are unaudited, have been prepared in accordance with the accounting policies in the Accounts for the period ending 31 December 2005.

The summary of results for the year ended 31 December 2005 does not constitute full financial statements within the meaning of Section 240 of the Companies Act 1985. The full financial statements for that year have been reported on by the company's auditors and delivered to the Registrar of Companies. The audit report was unqualified and did not contain a statement under Section 237(2) or Section 237(3) of the Companies Act 1985.

No dividends have been paid or proposed for the period.

The calculation of basic earnings per share is based on the loss for the period and 66,245,362 ordinary shares (2005: 34,938,163) being the weighted number of shares in issue during the half year. The weighted average number of shares in issue during the year ended 31 December 2005 was 50,546,959. There are currently 66,245,362 shares in issue.

<b>DIRECTORS &amp; OFFICERS</b>	Richard Rose	( <i>Chairman</i> )
	Peter Lawrence	( <i>Non-Executive Director</i> )
	Lawrence plc	( <i>Company Secretary</i> )
<b>REGISTERED OFFICE</b>	78 Coombe Road, New Malden, Surrey KT3 4QS	
	Tel: 020-8336 6183 Fax: 020-8336 0909	
	Tel: 020-8336-2900 Company Secretary	
<b>COMPANY NUMBER</b>	03345857	

## PART V

### FINANCIAL INFORMATION ON AGIL

#### Section A – Accountant’s report on Agil



**BDO Stoy Hayward LLP**  
Corporate Finance

BDO Stoy Hayward LLP  
8 Baker Street  
London W1U 3LL

The Directors and Proposed Director  
Kitech International Plc  
78 Coombe Road  
New Malden  
Surrey  
KT3 4QS

3 November 2006

The Directors  
JM Finn & Co Ltd  
Salisbury House  
London Wall  
London  
EC2M 5TA

Dear Sirs

#### **The Agil division of Lawrence plc (“Agil”)**

##### **Introduction**

We report on the financial information set out in Section B of Part V. This financial information has been prepared for inclusion in the admission document dated 3 November 2006 of Kitech International plc (the “Admission Document”) on the basis of the accounting policies set out in note 1 to the financial information. This report is required by paragraph (a) of Schedule Two of the AIM Rules and is given for the purpose of complying with that paragraph and for no other purpose.

Save for any responsibility arising under paragraph (a) of Schedule Two of the AIM Rules to any person as and to the extent there provided, to the fullest extent permitted by the law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with Schedule Two of the AIM Rules consenting to its inclusion in the Admission Document.

##### **Responsibilities**

As described in Section B of Part V, the directors of Kitech International plc are responsible for preparing the financial information on the basis of preparation set out in the accounting policies and in accordance with applicable law and United Kingdom accounting standards (“United Kingdom generally accepted accounting practice”).

It is our responsibility to form an opinion on the financial information as to whether the financial information gives a true and fair view, for the purposes of the Admission Document, and to report our opinion to you.

##### **Basis of opinion**

We conducted our work in accordance with Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of significant estimates



and judgements made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

### **Opinion**

In our opinion, the financial information gives, for the purposes of the Admission Document, a true and fair view of the state of affairs of Agil as at the dates stated and of its profits, cash flows and recognised gains and losses for the periods then ended in accordance with the basis of preparation set out in accounting policies and has been prepared in accordance with applicable United Kingdom generally accepted accounting practice as described in the accounting policies.

### **Declaration**

For the purposes of Paragraph (a) of Schedule Two of the AIM Rules, we are responsible for this report as part of the Admission Document and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Admission Document in compliance with Schedule Two of the AIM Rules.

Yours faithfully

**BDO Stoy Hayward LLP**

*Chartered Accountants*

## Section B – Financial information on Agil

### Responsibility

The directors and proposed director of Kiotech are responsible for preparing the financial information on Agil set out below on the basis of preparation set out in accounting policies and in accordance with applicable law and United Kingdom generally accepted accounting practice.

### Profit and loss accounts

		<i>Year ended 31 March 2004 £000</i>	<i>Year ended 31 March 2005 £000</i>	<i>Year ended 31 March 2006 £000</i>
	<i>Notes</i>			
<b>Gross Turnover</b>		4,841	5,208	5,235
Distributor commissions		184	209	163
<b>Turnover</b>	1	4,657	4,999	5,072
Cost of sales		2,905	3,288	3,349
<b>Gross profit</b>		1,752	1,711	1,723
Administrative expenses		(890)	(888)	(968)
<b>Operating profit</b>		862	823	755
Interest receivable and similar income	4	–	4	–
<b>Profit on ordinary activities before taxation</b>	2	862	827	755
Tax on profit on ordinary activities		(259)	(248)	–
<b>Profit for the financial year</b>	11	603	579	755

All amounts relate to continuing activities.

**Statement of total recognised gains and losses**

	<i>Year ended 31 March 2004 £000</i>	<i>Year ended 31 March 2005 £000</i>	<i>Year ended 31 March 2006 £000</i>
<b>Profit for the financial year</b>	603	579	755
Revaluation of leasehold property	<u>—</u>	<u>—</u>	<u>103</u>
Total recognised gains and losses relating to the year	<u>603</u>	<u>579</u>	<u>858</u>
<b>Note of historical cost profit and losses</b>			
Reported profit on ordinary activities before taxation	862	827	755
Difference between historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	<u>1</u>	<u>1</u>	<u>1</u>
Historical profit on ordinary activities before taxation	<u>863</u>	<u>828</u>	<u>756</u>

## Balance sheets

		<i>As at</i> <i>31 March</i> <i>2004</i> <i>£000</i>	<i>As at</i> <i>31 March</i> <i>2005</i> <i>£000</i>	<i>As at</i> <i>31 March</i> <i>2006</i> <i>£000</i>
	<i>Notes</i>			
<b>Fixed assets</b>				
Intangible assets	6	25	21	18
Tangible assets	7	275	273	361
		<u>300</u>	<u>294</u>	<u>379</u>
<b>Current assets</b>				
Stocks	8	321	342	309
Debtors – falling due within one year	9	2,137	2,335	2,487
		<u>2,458</u>	<u>2,677</u>	<u>2,796</u>
<b>Creditors: amounts falling due within one year</b>	10	(959)	(1,004)	(895)
<b>Net current assets</b>		<u>1,499</u>	<u>1,673</u>	<u>1,901</u>
<b>Total assets less current liabilities</b>		<u>1,799</u>	<u>1,967</u>	<u>2,280</u>
<b>Capital employed</b>				
Revaluation reserve	11	68	67	169
Profit and loss account	11	8,200	8,780	9,536
Inter-divisional debtor		<u>(6,469)</u>	<u>(6,880)</u>	<u>(7,425)</u>
	12	<u>1,799</u>	<u>1,967</u>	<u>2,280</u>

## Cash flow statements

		<i>Year ended 31 March 2004 £000</i>	<i>Year ended 31 March 2005 £000</i>	<i>Year ended 31 March 2006 £000</i>
	<i>Notes</i>			
<b>Net cash inflow from operating activities</b>	13	1,177	684	798
<b>Returns on investment and servicing of finance</b>				
Interest received		–	4	–
<b>Taxation</b>		(365)	(259)	(248)
<b>Capital expenditure and financial investment</b>				
Purchase of intangible fixed assets	6	–	–	(1)
Purchase of tangible fixed assets	7	(22)	(18)	(4)
<b>Net cash outflow from capital expenditure and financial investment</b>		(22)	(18)	(5)
Increase in cash	14, 15	790	411	545

## **Principal accounting policies**

### *Basis of preparation*

The financial information has been prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards as modified by the revaluation of certain fixed assets.

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

This financial information comprises the financial information of Agil. Agil is a division of Lawrence plc and is not incorporated as a separate legal entity. Accordingly, this financial information has been extracted from the financial information of Lawrence plc. Agil does not maintain its own bank account. Instead, receipts and payments are processed through the bank accounts of Lawrence plc. The net cumulative balance due to or from Lawrence plc in respect of these receipts and payments is included within capital employed in the balance sheet.

### *Turnover*

Turnover represents net invoiced sales of goods, excluding value added tax. Turnover is stated after deducting distributor commissions.

### *Tangible fixed assets*

Tangible fixed assets are stated at cost or valuation, net of depreciation and any provision for impairment.

Depreciation is provided at the following annual rates in order to write off each asset over its estimated useful life.

Long leasehold property	– on valuation over the remaining term of the lease
Alterations to premises	– 10% on cost
Plant and machinery	– 20% on cost
Fixtures and fittings	– 20% on cost
Motor vehicles	– 25% on cost

### *Intangible fixed assets*

Trademarks purchased separately from a business are amortised over 20 years.

### *Leased assets*

Assets held under finance leases and hire purchase contracts are capitalised in the balance sheet and depreciated over their expected useful economic lives. The interest element of leasing payments represent a constant proportion of the capital balance outstanding and is charged to the profit and loss account over the period of the lease.

All other leases are regarded as operating leases and the payments made under them are charged to the profit and loss account on a straight line basis over the lease term.

### *Stock*

Stocks are valued at the lower of cost and net realisable value, after making due allowance for obsolete and slow moving items. Cost includes all direct expenditure and an appropriate proportion of fixed and variable overheads.

### *Research and development*

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

### *Deferred taxation*

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

### *Foreign currencies*

Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Where exchange differences result from the translation of foreign currency borrowings raised to acquire foreign assets, they are taken to reserves and offset against the differences arising from the translation of those assets. All other exchange differences are dealt with through the profit and loss account.

### *Contributions to pension schemes*

The pension costs charged against operating profits represent the amount of the contributions payable to the schemes in respect of the accounting period.

### *Financial instruments*

Income and expenditure arising on financial instruments is recognised on the accruals basis, and credited or charged to the profit and loss account in the financial period to which it relates.

## Notes to the financial information

### 1 Turnover

All turnover arises in the United Kingdom.

### 2 Profit on ordinary activities before taxation

The profit on ordinary activities before taxation is stated after charging:

	<i>Year ended 31 March 2004 £000</i>	<i>Year ended 31 March 2005 £000</i>	<i>Year ended 31 March 2006 £000</i>
Loss on foreign currency transactions	–	–	1
Depreciation – owned	21	20	19
Amortisation of intangible assets	3	4	4
R&D expenditure	13	15	9

The profit on ordinary activities before taxation is stated after crediting:

Gain on foreign currency transactions	–	9	–
---------------------------------------	---	---	---

### 3 Staff Costs

Staff costs during each year were as follows:

	<i>Year ended 31 March 2004 £000</i>	<i>Year ended 31 March 2005 £000</i>	<i>Year ended 31 March 2006 £000</i>
Wages and salaries	456	459	457
Social security costs	54	50	47
Pension costs	44	44	44
	<u>554</u>	<u>553</u>	<u>548</u>

The average number of employees during each year was:

	<i>Year ended 31 March 2004 £000</i>	<i>Year ended 31 March 2005 £000</i>	<i>Year ended 31 March 2006 £000</i>
Management	2	1	1
Technical	3	3	3
Administration	5	5	5
Sales	1	1	1
	<u>11</u>	<u>10</u>	<u>10</u>



#### 4 Net interest

	<i>Year ended 31 March 2004 £000</i>	<i>Year ended 31 March 2005 £000</i>	<i>Year ended 31 March 2006 £000</i>
Other interest receivable	–	4	–

#### 5 Tax on profit on ordinary activities

The taxation charge is based on the profit for the year and represents:

	<i>Year ended 31 March 2004 £000</i>	<i>Year ended 31 March 2005 £000</i>	<i>Year ended 31 March 2006 £000</i>
UK corporation tax at 30% (2005: 30%; 2004: 30%)	259	248	–
Factors affecting the tax charge for the year			
Profit on ordinary activities before taxation	862	827	755
Profit on ordinary activities before taxation multiplied by standard rate of UK corporation tax of 30% (2005: 30%; 2004: 30%)	259	248	227
Effects of:			
Surrender of losses from other divisions	–	–	(227)
	–	–	(227)
Current tax charge	259	248	–

#### 6 Intangible fixed assets

	<i>Trade marks £000</i>	<i>Total £000</i>
Cost:		
At 1 April 2003, 31 March 2004 and 31 March 2005	68	68
Additions	1	1
<b>As 31 March 2006</b>	<b>69</b>	<b>69</b>
Amortisation:		
At 1 April 2003	40	40
Provided in the year	3	3
At 31 March 2004	43	43
Provided in the year	4	4
At 31 March 2005	47	47
Provided in the year	4	4
<b>At 31 March 2006</b>	<b>51</b>	<b>51</b>
Net book value:		
At 31 March 2004	25	25
At 31 March 2005	21	21
<b>At 31 March 2006</b>	<b>18</b>	<b>18</b>

## 7 Tangible fixed assets

	<i>Long leasehold property £000</i>	<i>Alterations to premises £000</i>	<i>Fixtures and fittings £000</i>	<i>Plant and machinery £000</i>	<i>Total £000</i>
At 1 April 2003	255	4	91	11	361
Additions	–	8	14	–	22
At 31 March 2004	255	12	105	11	383
Additions	–	1	16	1	18
At 31 March 2005	255	13	121	12	401
Additions	–	–	4	–	4
Revaluation	90	–	–	–	90
<b>At 31 March 2006</b>	<b>345</b>	<b>13</b>	<b>125</b>	<b>12</b>	<b>495</b>
Depreciation:					
At 1 April 2003	18	2	61	6	87
Provided in the year	5	1	14	1	21
At 31 March 2004	23	3	75	7	108
Provided in the year	5	1	13	1	20
At 31 March 2005	28	4	88	8	128
Provided in the year	5	1	12	1	19
Revaluation	(13)	–	–	–	(13)
<b>At 31 March 2006</b>	<b>20</b>	<b>5</b>	<b>100</b>	<b>9</b>	<b>134</b>
Net book amount:					
At 31 March 2004	232	9	30	4	275
At 31 March 2005	227	9	33	4	273
<b>At 31 March 2006</b>	<b>325</b>	<b>8</b>	<b>25</b>	<b>3</b>	<b>361</b>

The long leasehold property was valued on 15 February 2006 by Mr R.L. Sworn of Kelion Sworn, Chartered Surveyors and Valuers, London W1. The leasehold property was valued at £325,000 with vacant possession, which is not materially different from value of existing use.

Had the property been valued on the historical cost basis, the carrying value as at 31 March 2006 would have been £156,000 (2005: £160,000; 2004: £164,000).

The property will continue to be revalued on a regular basis.

## 8 Stocks

	<i>As at 31 March 2004 £000</i>	<i>As at 31 March 2005 £000</i>	<i>As at 31 March 2006 £000</i>
Raw materials	190	202	234
Finished goods	131	140	75
	<b>321</b>	<b>342</b>	<b>309</b>

## 9 Debtors

	<i>As at 31 March 2004 £000</i>	<i>As at 31 March 2005 £000</i>	<i>As at 31 March 2006 £000</i>
Trade debtors	2,083	2,284	2,445
Other debtors	9	9	8
Prepayments	45	42	34
	<u>2,137</u>	<u>2,335</u>	<u>2,487</u>

## 10 Creditors: amounts falling due within one year

	<i>As at 31 March 2004 £000</i>	<i>As at 31 March 2005 £000</i>	<i>As at 31 March 2006 £000</i>
Trade creditors	688	745	867
Corporation tax	259	248	–
Accruals	12	11	28
	<u>959</u>	<u>1,004</u>	<u>895</u>

## 11 Reserves

	<i>Revaluation reserve £000</i>	<i>Profit and loss account £000</i>
As at 1 April 2003	69	7,596
Profit for the year	–	603
Transfer of reserves	(1)	1
As at 31 March 2004	<u>68</u>	<u>8,200</u>
Profit for the year	–	579
Transfer of reserves	(1)	1
As at 31 March 2005	<u>67</u>	<u>8,780</u>
Profit for the year	–	755
Revaluation of assets	103	–
Transfer of reserves	(1)	1
As at 31 March 2006	<u>169</u>	<u>9,536</u>

**12 Reconciliation of movement in capital employed**

	<i>As at</i> <i>31 March</i> <i>2004</i> <i>£000</i>	<i>As at</i> <i>31 March</i> <i>2005</i> <i>£000</i>	<i>As at</i> <i>31 March</i> <i>2006</i> <i>£000</i>
Profit for the year	603	579	755
Revaluation of fixed assets	—	—	103
Movement in inter-divisional debtor	(790)	(411)	(545)
Capital employed at start of year	1,986	1,799	1,967
Capital employed at end of year	<u>1,799</u>	<u>1,967</u>	<u>2,280</u>

**13 Net cash inflow from operating activities**

	<i>Year ended</i> <i>31 March</i> <i>2004</i> <i>£000</i>	<i>Year ended</i> <i>31 March</i> <i>2005</i> <i>£000</i>	<i>Year ended</i> <i>31 March</i> <i>2006</i> <i>£000</i>
Operating profit	862	823	755
Depreciation	21	20	19
Amortisation charge	3	4	4
Increase/(decrease) in stocks	43	(20)	33
Decrease/(increase) in debtors	105	(198)	(152)
Increase in creditors	143	55	139
Net cash inflow from operating activities	<u>1,177</u>	<u>684</u>	<u>798</u>

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

	<i>Year ended</i> <i>31 March</i> <i>2004</i> <i>£000</i>	<i>Year ended</i> <i>31 March</i> <i>2005</i> <i>£000</i>	<i>Year ended</i> <i>31 March</i> <i>2006</i> <i>£000</i>
Increase in cash in the year	790	411	545
Change in inter-company debt resulting from cash flows	790	411	545
Movement in net debt in the year	790	411	545
Net debt owed to Agil at the start of the year	5,679	6,469	6,880
Net debt owed to Agil at the end of the year	<u>6,469</u>	<u>6,880</u>	<u>7,425</u>

## 15 Analysis of changes in net debt

	<i>At</i>		<i>At</i>		<i>At</i>		<i>At</i>
	<i>1 April</i>	<i>Cash</i>	<i>31 March</i>	<i>Cash</i>	<i>31 March</i>	<i>Cash</i>	<i>31 March</i>
	<i>2003</i>	<i>flow</i>	<i>2004</i>	<i>flow</i>	<i>2005</i>	<i>flow</i>	<i>2006</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Cash owed to Agil	5,679	790	6,469	411	6,880	545	7,425

## 16 Defined benefit pension scheme

Lawrence Plc operates a defined benefit scheme on behalf of two employees within the Agil division. The scheme will not be transferred with the other assets and liabilities of the division upon sale. Contributions to the Lawrence Plc pension scheme have been accounted for on an accruals basis.

## 17 Capital commitments

The division had no authorised capital commitments as at 31 March 2004, 31 March 2005 and 31 March 2006.

## 18 Contingent liabilities

There were no contingent liabilities at 31 March 2004, 31 March 2005 and 31 March 2006.

## 19 Leasing commitments

	<i>2004</i>		<i>2005</i>		<i>2006</i>	
	<i>Land and</i>	<i>2004</i>	<i>Land and</i>	<i>2005</i>	<i>Land and</i>	<i>2006</i>
	<i>buildings</i>	<i>Other</i>	<i>buildings</i>	<i>Other</i>	<i>buildings</i>	<i>Other</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Expiring:						
In one year or less	–	–	–	8	–	3
Between one and five years	–	11	–	3	–	–
In five years or more	38	–	38	–	38	–
	<u>38</u>	<u>11</u>	<u>38</u>	<u>11</u>	<u>38</u>	<u>3</u>

The above commitments are in the name of Lawrence Plc, but relate to assets used by the Agil division.

## 20 Related parties

The Agil division is one of several divisions which comprise Lawrence Plc. During the course of the period under review, Agil carried out various transactions with certain other divisions. The balance owing from these divisions as at the year end amounted to £7,425,000 (2005: £6,880,000; 2004: £6,469,000).

## PART VI

### UNAUDITED PRO FORMA STATEMENT OF NET ASSETS OF THE ENLARGED GROUP

The following unaudited pro forma statement of net assets of the Enlarged Group following the Placing and Acquisition has been prepared for illustrative purposes only to provide information about the impact of these transactions on the Company and, because of its nature, may not give a true reflection of the financial position of the Enlarged Group. It has been prepared on the basis that the Placing and Acquisition were undertaken on 30 June 2006 and on the basis set out in the notes:

		<i>Adjustments</i>		
	<i>Kiotech International plc As at 30 June 2006 (note 1) £000</i>	<i>Agil As at 31 March 2006 (note 2) £000</i>	<i>The Placing (note 3) £000</i>	<i>Pro forma net assets of the Enlarged Group £000</i>
			<i>The Acquisition (note 4) £000</i>	
<b>Fixed assets</b>				
Intangible assets	2	18	–	3,628
Tangible assets	–	361	–	361
	<u>2</u>	<u>379</u>	<u>–</u>	<u>3,989</u>
<b>Current assets</b>				
Stocks	39	309	–	348
Debtors	38	2,487	–	2,525
Cash at bank and in hand	1,635	–	5,083	1,635
	<u>1,712</u>	<u>2,796</u>	<u>5,083</u>	<u>4,508</u>
<b>Creditors:</b> amounts falling due within one year	(58)	(895)	–	(1,508)
<b>Net current assets/(liabilities)</b>	<u>1,654</u>	<u>1,901</u>	<u>5,083</u>	<u>3,000</u>
<b>Total assets less current liabilities</b>	<u>1,656</u>	<u>2,280</u>	<u>5,083</u>	<u>6,989</u>

**Notes:**

The pro forma statement of net assets has been prepared on the following basis:

1. The net assets of Kiotech International plc at 30 June 2006 have been extracted from the unaudited interim results set out in Part IV.

*Adjustments:*

2. The net assets of Agil at 31 March 2006 have been extracted from the financial information set out in Part V of this document.
3. This adjustment represents the proceeds of the Placing of £5,295,000 net of estimated costs of the Placing (£212,000) being the proceeds of the Placing charged at 4 per cent.
4. This adjustment reflects an estimate of the goodwill arising following the Acquisition, as illustrated in the table below:

	<i>£000</i>
Cash consideration	4,695
Retained debt	555
Share consideration	250
Costs of the Acquisition	388
	<u>5,888</u>
Pro forma separable net assets acquired (as above)	<u>(2,280)</u>
Pro forma goodwill	<u>3,608</u>

The final calculation of goodwill will incorporate the net assets of Agil at the actual date of acquisition, including any fair value adjustments. The calculation above is based on the net assets of Agil as at 31 March 2006. Any difference between actual net assets as at the date of acquisition and the net assets shown above as at 31 March 2006 will alter the calculation of goodwill and the difference may be material.

5. No adjustments have been made to reflect the trading results of Agil since 31 March 2006 and of Kiotech International plc since 30 June 2006.



The Directors  
Kiotech International Plc  
78 Coombe Road  
New Malden  
Surrey  
KT3 4QS

3 November 2006

The Directors  
JM Finn & Co Ltd  
Salisbury House  
London Wall  
London  
EC2M 5TA

Dear Sirs

**Kiotech International Plc (the “Company”)  
Pro forma financial information**

We report on the unaudited pro forma statement of net assets (the “Pro Forma Financial Information”) set out in Part VI of the admission document dated 3 November 2006 which has been prepared on the basis described in the notes thereto, for illustrative purposes only, to provide information about how the Placing and Acquisition might have affected the financial information presented on the basis of accounting policies adopted by the Company in preparing its financial statements for the year ended 31 December 2005.

This report is required by guidance issued by the London Stock Exchange with respect to the AIM market and is given for the purpose of complying with that guidance issued by the London Stock Exchange and for no other purpose.

Save for any responsibility arising under guidance issued by the London Stock Exchange with respect to the AIM Market to any person as and to the extent there provided, to the fullest extent permitted by the law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with Schedule Two of the AIM Rules consenting to its inclusion in the Admission Document.

**Responsibilities**

It is the responsibility of the directors of the Company (the “Directors”) to prepare the Pro Forma Financial Information in accordance with guidance issued by the London Stock Exchange.

It is our responsibility to form an opinion, as required by guidance issued by the London Stock Exchange, as to the proper compilation of the Pro Forma Financial Information and to report that opinion to you.

In providing this opinion we are not updating or refreshing any reports or opinions previously made by us on any financial information used in the compilation of the Pro Forma Financial Information, nor do we accept responsibility for such reports or opinions beyond that owed to those to whom those reports or opinions were addressed by us at the dates of their issue.

**Basis of opinion**

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. The work that we performed for the purpose of making this report,



which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Pro Forma Financial Information with the Directors.

We planned and performed our work so as to obtain the information and explanations which we considered necessary in order to provide us with reasonable assurance that the Pro Forma Financial Information has been properly compiled on the basis stated and that such basis is consistent with the accounting policies of the Company.

### **Opinion**

In our opinion:

- (a) the Pro Forma Financial Information has been properly compiled on the basis stated; and
- (b) such basis is consistent with the accounting policies of the Company.

### **Declaration**

For the purposes of guidance issued by the London Stock Exchange, we are responsible for this report as part of the Admission Document and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Admission Document in compliance with guidance issued by the London Stock Exchange.

Yours faithfully

**BDO Stoy Hayward LLP**

## PART VII

### ADDITIONAL INFORMATION

#### 1. The Company and its subsidiaries

1.1 The Company was incorporated and registered in England and Wales under the Act on 7 April 1997 under the name of Kiotech International plc with registered number 3345857 as a public company with limited liability under the Act. On 26 June 1997 the Company obtained a certificate to do business and borrow in accordance with the Act.

1.2 The Company is the holding company of the following subsidiary companies, all of which are incorporated in England and Wales and are wholly owned:

<i>Name</i>	<i>Principal Activity</i>	<i>Issued share capital (fully paid)</i>
Ultrabite Limited	Development and exploitation of biochemical attractants	1,000 ordinary shares of £1 each
Kiotech Limited	Development and exploitation of biochemical attractants	1178 ordinary shares of £1 each
Boditech Diagnostics Limited	Dormant	100 ordinary shares of £1 each

1.3 The registered office of the Company and each of its subsidiaries is at 78 Coombe Road, New Malden, Surrey KT3 4QS and the telephone number of the registered office of the Company is 0208 336 6183.

1.4 The ISIN for the Ordinary Shares is GB0002264207.

#### 2. Share capital

2.1 The Ordinary Shares have been created pursuant to the Act. The Company was incorporated with an authorised share capital of £50,000 represented by 50,000 ordinary shares of £1 each of which 2 were issued to subscribers Cargil Management Services Limited and Lea Yeat Limited. The following alterations in the issued share capital of the Company have taken place since incorporation:

- (i) on 22 May 1997 the authorised share capital of the Company was increased from £50,000 to £2,000,000 by the creation of an additional 1,950,000 ordinary shares of £1 each;
- (ii) on 26 June 1997 the Company allotted an aggregate 1,284,516 ordinary shares of £1 each;
- (iii) on 22 September 1997 the Company made allotment of 4,500 ordinary shares of £1 each for working capital purposes;
- (iv) on 10 October 1997 the Company made an allotment of 15,950 ordinary shares of £1 each for working capital purposes;
- (v) on 21 October 1997 the Company made an allotment of 9,000 ordinary shares of £1 each for working capital purposes;
- (vi) on 24 November 1997 the Company made an allotment of an aggregate of 160,000 ordinary shares of £1 each for working capital purposes;
- (vii) on 24 June 1998 the authorised share capital of the Company was increased from £2,000,000 to £3,000,000 by the creation of 1,000,000 ordinary shares of £1 each;
- (viii) on 1 December 1998 the Company made an allotment of an aggregate of 10,704 ordinary shares of £1 each for working capital purposes;

- (ix) on 10 November 1999 the Company made an allotment of an aggregate of 315,000 ordinary shares of £1 each for working capital purposes;
- (x) on 26 May 2000 the Company made an allotment of an aggregate of 60,000 ordinary shares of £1 each for working capital purposes;
- (xi) on 6 July 2001 each of the issued ordinary shares of £1 each in the capital of the Company was sub-divided and reclassified into 1 Ordinary Share and 1 A Share of 99p and each of the existing unissued ordinary shares of £1 each in the capital of the Company was sub-divided and reclassified into 100 Ordinary Shares each and on that date the Company also allotted an aggregate of 6,850,000 Ordinary Shares;
- (xii) on 16 August 2001 the Company made an allotment of an aggregate of 1,506,338 Ordinary Shares for working capital purposes;
- (xiii) on 29 August 2001 the Company made an allotment of an aggregate of 4,954,440 Ordinary Shares for working capital purposes;
- (xiv) between 13 May 2002 and 15 October 2002 the Company allotted an aggregate of 5,650,342 Ordinary Shares for working capital purposes;
- (xv) on 22 July 2002 the Company made an allotment of an aggregate of 282,033 Ordinary Shares to employees in lieu of salaries;
- (xvi) on 20 February 2003 the Company made an allotment of an aggregate of 4,850,000 Ordinary Shares;
- (xvii) on 15 January 2004 the Company made an allotment of 5,572,640 Ordinary Shares;
- (xviii) on 15 April 2004 the Company allotted 186,667 Ordinary Shares to David Gyle-Thompson in lieu of salary and fees;
- (xix) on 18 June 2004 the authorised share capital of the Company was increased from £3,000,000 to £21,841,075 by the creation of 1,884,107,528 Ordinary Shares;
- (xx) on 9 September 2004 the Company allotted 150,000 Ordinary Shares to private investors;
- (xxi) on 1 October 2004 the Company allotted an aggregate of 350,000 Ordinary Shares to Nicholas Scott and Peter Rawlings in lieu of fees and expenses;
- (xxii) on 10 October 2004 the Company made an allotment of 2,375,410 Ordinary Shares; and
- (xxiii) on 29 June 2005 an aggregate of 31,657,000 Ordinary Shares were issued to various placees in conjunction with the admission of the Company's shares to trading on AIM.

Pursuant to a special resolution to be proposed at the EGM:

- the directors will be generally and unconditionally authorised, in accordance with section 80 of the Act to allot all relevant securities (as defined in that section and which will include the Placing Shares and the Consideration Shares) up to a maximum aggregate nominal value of £2,676,893 provided that this authority will expire fifteen months from the date of the passing of the resolution or, if earlier, at the Company's next annual general meeting, save that the Directors may, before the expiry, make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities pursuant to such offer or agreement as if the authority had not expired; and
- the directors will be given power in accordance with section 95 of the Act to allot equity securities (within the meaning of section 94 of the Act and which will include the Placing Shares) up to a maximum aggregate nominal value of £2,016,079 pursuant to the authority conferred by the resolution details of which are set out in the paragraph above as if section 89(1) of the Act did not apply to the allotment provided that such power will expire fifteen

months from the date of the passing of the resolution, or if earlier, at the Company's next annual general meeting save that the Directors may, before the expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities pursuant to such offer or agreement as if the authority had not expired.

- 2.2 The authorised and issued share capital of the Company (i) as at 31 December 2005 and at the date of this document and (ii) following completion of the Placing and Admission is set out below:

<i>Authorised</i>			<i>Issued and fully paid</i>		
	<i>£</i>	<i>Number</i>		<i>£</i>	<i>Number</i>
(i)	20,000,000	2,000,000,000	Ordinary Shares	662,453.62	66,245,362
	1,841,075.28	1,859,672	A Shares	1,841,075.28	1,859,672
(ii)	20,000,000	2,000,000,000	Ordinary Shares	2,510,786.96	251,078,696
	1,841,075.28	1,859,672	A Shares	1,841,075.28	1,859,672

The number of issued Ordinary Shares as at 1 January 2005 was 34,588,362 and the number of issued Ordinary Shares as at 31 December 2005 was 66,245,362. No Ordinary Shares have been issued since this date.

- 2.3 Save as disclosed in paragraphs 4, 5 and 8 below, no capital of the Company is proposed to be issued or is under option or is agreed to be put under option.

### **3. Constitutional documents and other relevant laws and regulations**

#### **3.1 Memorandum of Association**

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

#### **3.2 Articles of Association**

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

##### **3.2.1 Voting rights**

Subject to paragraph 3.2.6 below and to any special rights or restrictions as to voting, on a show of hands every member who is present in person shall have one vote and on a poll every member present in person or by proxy shall have one vote for every share of which he is the holder. A proxy need not be a member of the Company.

##### **3.2.2 Variation of rights**

Whenever the share capital of the Company is divided into different classes of shares the rights attached to any class may be varied or abrogated either in such manner (if any) as may be provided by those rights, or with the consent in writing of the holders of three-fourths of the issued shares of that class, or with the sanction of an extraordinary resolution passed at a separate general meeting of the holders of the shares of that class and may be so varied and abrogated whilst the Company is a going concern or during or in contemplation of a winding up. At every separate general meeting, the quorum shall be persons at least holding or representing by proxy one-third of the issued shares of that class. These conditions are not more stringent than required by law.

##### **3.2.3 Alteration of capital**

The Company may by ordinary resolution increase its capital, consolidate and divide all or any of its share capital into shares of a larger amount than its existing shares, sub-divide all or any of its shares into shares of a smaller amount than is fixed by the Memorandum of Association,

cancel any shares not taken, or agreed to be taken, by any person and diminish the amount of its share capital by the amount of the shares cancelled.

The Company may, by special resolution, reduce its authorised and issued share capital or any capital redemption reserve or share premium account.

Subject to, and in accordance with the provisions of the Act, the Company may purchase its own shares (including any redeemable shares) with prior sanction of an extraordinary resolution passed at a separate general meeting.

These conditions are not more stringent than required by law.

#### 3.2.4 *Transfer of shares*

A member may transfer all or any of his shares (1) in the case of certificated shares by transfer in writing in the usual common form or in any other form approved by the Directors and (2) in the case of uncertificated shares, in the manner provided for in the rules and procedures of the operator of the relevant system and in accordance with and subject to the Uncertified Securities Regulations. The transfer shall be signed by or on behalf of the transferor and, if the share is not fully paid, by the transferee. Subject to paragraph 3.2.6 below, the Articles contain no restrictions on the free transferability of fully paid shares provided that the transfer is in respect of only one class of share and is accompanied by the share certificate and any other evidence of title required by the Directors and that the provisions in the Articles relating to the deposit of instruments for transfer have been complied with.

The Company will not close the register of members in respect of a share, class of share, renounceable right of allotment of a share or other security (title to units of which is permitted to be transferred by computer-based systems and procedures in accordance with the Uncertified Securities Regulations) without the consent of the operator of the relevant system. The registration of transfers may be suspended and the register of transfers may be closed at such times and for such periods as the Directors may determine but not exceeding thirty days in any year.

Subject to the requirements of the London Stock Exchange, the Company shall register a transfer of title to any uncertificated share or any renounceable right to allotment of a share held in uncertificated form in accordance with the Uncertified Securities Regulations but so that the Directors may refuse to register such transfer in any circumstance permitted or required by the Uncertified Securities Regulations and the requirements of the relevant system.

#### 3.2.5 *Dividends*

- (a) Subject to the Act or any other statutes in force, the Company may by ordinary resolution declare dividends provided that no dividend shall exceed the amount recommended by the Directors. The Directors may from time to time declare and pay interim dividends on shares of any class of such amounts and on such dates in respect of such periods as they think fit.
- (b) Subject to the rights of any persons, if any, holding shares with special dividend rights, and subject to paragraph 3.2.6 below, all dividends shall be apportioned and paid pro rata according to the amounts paid on the shares during any portion or portions of the period in respect of which the dividend is paid. No amount paid or credited as paid in advance of calls shall be regarded as paid on shares for this purpose.
- (c) All dividends unclaimed for a period of 12 years from the date on which such dividend was declared or became due for payment shall be forfeited and shall revert to the Company.
- (d) There is no fixed date on which an entitlement to dividend arises.

### 3.2.6 *Suspension of rights*

If a member or any other person appearing to be interested in shares of the Company fails within 14 days after the date of service of a notice to comply with the statutory disclosure requirements then:

- (a) if the shares are held in certificated form from the time of such failure until not more than 7 days after the earlier of (a) receipt by the Company of notice that there has been a transfer of the shares by an arm's length sale and (b) due compliance, to the satisfaction of the Company, with the statutory disclosure requirements (if the Directors so resolve) such member shall not be entitled to attend or vote or to exercise any right conferred by membership at meetings of the Company in respect of the shares which are the subject of such notice. Where the holding represents more than 0.25 per cent. of the issued shares of that class, should the Directors so resolve, the payment of dividends may be withheld, and such member shall not be entitled to transfer such shares otherwise than by an arm's length sale.
- (b) if the shares are held in uncertificated form, the Directors may serve upon the registered holder of such shares a notice requiring the holder to convert his holding of uncertificated shares into certificated form within such period as is specified in the notice and require the holder to continue to hold such shares in certificated form for so long as such failure continues. If the holder shall fail to convert his holding within the specified time, the Directors are empowered to authorise some person to take all such steps and issue such instructions (by means of the relevant system or otherwise) as may be necessary in the name of the holder of such shares to effect the conversion of such shares to certificated form. Such steps shall be as effective as if they had been taken by the registered holder of the relevant uncertificated shares. Once such conversion to certificated form has been effected, the above rules in relation to shares in certificated form shall apply.

### 3.2.7 *Return of capital*

A liquidator may, with the sanction of a special resolution of the Company and any other sanction required by the Act, divide amongst the members in specie the whole or any part of the assets of the Company (whether or not the assets shall consist of property of one kind or shall consist of properties of members or different classes of members). A liquidator may also vest any part of the assets of the Company in trustees on trusts for the benefit of the members as the liquidator, with the like authority, shall think fit.

### 3.2.8 *Pre-emption rights*

There are no rights of pre-emption under the Articles in respect of transfers of issued Ordinary Shares.

In certain circumstances, Shareholders may have statutory pre-emption rights under the Act in respect of the allotment of new shares in the Company. These statutory pre-emption rights would require the Company to offer new shares for allotment to existing Shareholders on a pro rata basis before allotting them to other persons. In such circumstances, the procedure for the exercise of such statutory pre-emption rights would be set out in the documentation by which such shares would be offered to the Company's shareholders.

### 3.2.9 *General meetings*

An annual general meeting of the Company shall be held in each year in addition to any other meetings which may be held in that year and at such time and place as may be determined by the Directors, but so not more than fifteen months shall elapse between the holding of any two successive annual general meetings.

The Directors shall convene an extraordinary general meeting whenever they think fit. Extraordinary general meetings shall also be convened on a requisition of the members of the Company as provided for by the Act or, if the Directors fail to convene an extraordinary general meeting within twenty one days from the date of the deposit of the requisition, a meeting may be convened by such requisitionists as provided by the Act.

Twenty one clear days' notice in respect of an annual general meeting and every extraordinary general meeting at which it is proposed to pass a special resolution and fourteen clear days' notice in respect of every other extraordinary general meeting shall be given to all members (other than those who, under the provisions of the Articles or under the rights attached to the shares held by them, are not entitled to receive notices from the Company) and to the auditors, but the accidental omission to give such notice to, or the non-receipt of such notice by, any person entitled to receive notice shall not invalidate the proceedings at such meeting.

Every notice shall be in writing and specify the place, the day and the time of the meeting and (in the case of special business) the nature of such business and in the case of an annual general meeting shall specify the meeting as such.

No business shall be transacted at any general meeting unless the requisite quorum is present. Two persons entitled to vote at the meeting, present in person or by proxy, shall be a quorum for all purposes. If within half an hour from the time appointed for the general meeting a quorum is not present, if convened on the requisition of the members the meeting shall be dissolved. In any other case the meeting shall be adjourned to the same day in the next week at the same time and place, or to such other time and place as the Directors shall determine, being not more than twenty eight days later. The Company shall give at least seven clear days notice of any meeting adjourned through lack of quorum. No business shall be transacted at any adjourned meeting other than the business which might have been transacted at the meeting from which the adjournment took place.

### 3.2.10 *Directors*

The business of the Company shall be managed by the Directors, who may exercise all such powers of the Company as are not by any statute or by the Articles required to be exercised by the Company in general meeting and for such purposes the Directors may establish any councils, committees, local boards or agencies for managing any of the affairs of the Company, either in the United Kingdom or elsewhere, and may appoint any persons to be members of such councils, committees, local boards or agencies or any managers or agents and may fix their remuneration.

The Directors may meet together for the despatch of business, adjourn and otherwise regulate their meetings as they think fit. The quorum necessary for the transaction of the business is two unless otherwise determined by the Directors. A meeting of the Directors at which a quorum is present shall be competent to exercise all powers and discretions for the time being exercisable by the Directors.

Save as mentioned below, a Director shall not vote in respect of any matter in which he has any material interest (otherwise than by virtue of his interest in shares or debentures or other securities of the Company). A Director shall not be counted in the quorum at any meeting in relation to any resolution in which he is debarred from voting.

Subject to the Act, a Director shall (in the absence some other material interest than is indicated below), be entitled to vote (and be counted in the quorum) in respect of any resolution concerning any of the following matters, namely:

- (a) the giving to him of any security or indemnity in respect of money lent or obligation incurred by him at the request of or for the benefit of the Company or any of its subsidiaries;



- (b) giving to a third party any security or indemnity in respect of a debt or obligation of the Company or any of its subsidiaries for which he himself has assumed responsibility in whole or in part under a guarantee or indemnity or by the giving of security;
- (c) any proposal concerning an offer of shares or debentures or other securities of or by the Company or any of its subsidiaries for subscription or purchase where he is, or is to be, interested as a participant in the underwriting, sub-underwriting, placing or sub-placing;
- (d) any proposals concerning any other company in which he is interested, directly or indirectly and whether as an officer creditor or shareholder or otherwise, provided that he is not the holder of or beneficially interested in one per cent. or more of any class of the equity share capital of that company (or of any third company through which his interest is derived) or of the voting rights available to members of the relevant company (any such interest being deemed for the purpose of the article to be a material interest in all circumstances);
- (e) any proposal concerning the adoption, modification or operation of a superannuation fund or retirement benefits scheme under which he may benefit and which has been approved by or is subject to and conditional upon approval by the Board of Inland Revenue for taxation purposes;
- (f) any arrangement principally for the benefit of employees and directors of the Company or of any of its subsidiaries under which the director benefits or is capable of benefiting provided that the arrangement does not accord to any director as such any privileges or advantages not generally accorded to the employees to whom the arrangement relates; and
- (g) any contract for the purchase or maintenance of insurance against any liability of any director.

There shall be paid to the Directors such sum as the Board may from time to time determine (not exceeding £250,000 per annum or such sum as the Company in general meeting shall from time to time determine) such sum shall be divided among the Directors in such manner and proportion as they may agree or in default of such determination, equally.

Subject to the provisions of the Act every Director, secretary or other officer of the Company (other than an auditor) is entitled to be indemnified against all costs, charges, losses, expenses and liabilities incurred by him for negligence, default, breach of duty or breach of trust in relation to the affairs of the Company.

Unless and until otherwise determined by ordinary resolution of the Company, the number of Directors shall be not less than three. There is no age limit nor any share qualification for Directors.

### **3.3 Other relevant laws and regulations**

#### **3.3.1 Disclosure of interests in shares**

A shareholder is required pursuant to sections 198 to 210 of the Act to notify the Company when he acquires or disposes of a material interest in shares in the capital of the Company equal to or in excess of three per cent. of the nominal value of that share capital.

Pursuant to Part IV of the Act, the Company is empowered by notice in writing to require any person whom the Company knows, or has reasonable cause to believe to be or, at any time during the three years immediately preceding the date on which the notice is issued, within a reasonable time to disclose to the Company particulars of any interests, rights, agreements or arrangements affecting any of the shares held by that person or in which such other person as aforesaid is interested.



### 3.3.2 *Takeovers*

As a public limited company incorporated and centrally managed and controlled in the UK, the Company is subject to the City Code on Takeovers and Mergers (the “City Code”). However as the Company’s shares are not admitted to trading on a Regulated Market, the Takeovers Regulations are not applicable, and therefore the Takeover Panel does not have any statutory powers to enforce the City Code in respect of the Company. It has, however, been acknowledged by the government and other regulatory authorities that those who seek to take advantage of the facilities of the securities market in the United Kingdom should conduct themselves in matters relating to takeovers in accordance with high business standards and so according to the City Code.

Under Rule 9 of the City Code, a person who acquires, whether by a single transaction or by a series of transactions over a period of time, shares which (taken with shares held or acquired or acquired by persons acting in concert with him) carry 30 per cent. or more of the voting rights of a company, such person is normally required to make a general offer to all shareholders of that company at not less than the highest price paid by him or them or any persons acting in concert during the offer period and in the 12 months prior to its commencement.

Further, pursuant to sections 428 to 430F of the Act, where the offeror has acquired or contracted to acquire not less than 90 per cent. in value of the shares to which an offer relates, the offeror may give notice, to the holder of any shares to which the offer relates which the offeror has not acquired or contracted to acquire and which he wishes to acquire and is entitled to so acquire, to acquire those shares on the same terms as the general offer.

## 4. Options

### 4.1 *Summary of the Kiotech EMI Scheme*

The Company has in place an option scheme which has been set up under the Enterprise Management Incentives (“EMI”) legislation (“EMI Options”). All of the EMI Options which have previously been granted by the Company to date have since lapsed. Certain EMI Options will be granted on Admission to the Proposed Director as detailed in paragraph 5.4 below. These, and any future, EMI Options will take the form of an individual contract between the Company and the relevant employee. The principal terms of which are set out below.

#### 4.1.1 *Eligibility*

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

4.2.1 works either at least 25 hours per week; or

4.2.2 devotes 75 per cent. of their working time to the business of the Company or the business of a subsidiary; and

4.2.3 who does not already own either directly or indirectly through his associates more than 30 per cent. of the Ordinary Share capital of the Company;

may be granted an EMI Option at the discretion of the Directors.

#### 4.1.2 *Individual Limit on Participation*

An individual employee’s participation under an EMI Option is limited so that the aggregate market value at the date of the grant of the EMI Option, of the shares placed under the EMI Option, and under any share option scheme approved by the Inland Revenue under Schedule 4 to The Income Tax (Earnings and Pensions) Act 2003 (except those granted under a savings related share option scheme) held by that employee cannot exceed £100,000.

#### 4.1.3 *Performance Targets*

The terms of each EMI Option permit the Directors to place any performance conditions as they see fit.

#### 4.1.4 *Exercise*

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

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

Any option to be granted will be subject to the condition that the optionholder (where applicable) meets the Company’s secondary National Insurance Contributions due on the exercise or release of the options.

#### 4.1.5 *Non-Transferability of Options*

Any options granted will be non-transferable, except to the personal representatives of the employee. An EMI Option shall lapse immediately if it is purportedly transferred, mortgaged, charged or assigned.

#### 4.1.6 *Scheme Limits*

The maximum number of Ordinary Shares which may be placed under option under both the Kiotech EMI Scheme and any other share option schemes established by the Company is such number of Ordinary Shares as represents 10 per cent. of the Company’s issued share capital from time to time.

#### 4.1.7 *Variations of Share Capital*

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

#### 4.1.8 *Alterations*

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

#### 4.1.9 *Disqualifying Events*

Schedule 5 to the Income Tax (Earnings and Pensions) Act 2003 sets out specific events which are to be treated as “Disqualifying Events” the consequence of which will either cause the EMI Options to lapse immediately or 40 days from the date the event took place, if the EMI Options have not been exercised within that 40 day period.

#### 4.2 *Unapproved Options*

Under the terms of the Kiotech EMI Scheme the Company may issue options which do not comply with the EMI legislation (“Unapproved Options”) but otherwise upon the same principal terms and conditions as under the Kiotech EMI Scheme. The Company has currently issued and outstanding Unapproved Options over 30,000 Ordinary Shares at an exercise price of 14p per Ordinary Share, over 500,000 Ordinary Shares at an exercise price of 7.38p per Ordinary Share, and over 500,000 Ordinary Shares at an exercise price of 7.25p per Ordinary Share. In addition further Unapproved Options are to be issued to the Proposed Director as defined in paragraph 5.4 below.

#### 4.3 *Stand Alone Options*

Nicholas Scott and David Gyle-Thompson have been granted options over 1,500,000 Ordinary Shares and 1,350,000 Ordinary Shares respectively pursuant to stand alone option deeds. In each case the options are exercisable at 5.38p per share during the period commencing on 12 July 2008 and ending on 12 July 2018.

### 5. **Directors’ and other interests**

- 5.1 The interests of the Directors and the Proposed Director (including the interests of their spouses and infant children and the interests of any persons connected with them within the meaning of section 346 of the Act), all of which are beneficial, in the issued share capital of the Company which have been notified to the Company pursuant to sections 324 and 328 of the Act, as at the date of publication of this document and as they are expected to be immediately following completion of the Placing and Admission are as follows:

<i>Name</i>	<i>As at the date of this document</i>		<i>Following the Placing and Admission</i>	
	<i>Ordinary Shares</i>	<i>%</i>	<i>Ordinary Shares</i>	<i>%</i>
Richard Rose	714,300	1.08	714,300	0.28
Peter Lawrence	642,870	0.97	642,870	0.26
Richard Edwards	Nil	Nil	666,667	0.27

- 5.2 On 29 November 2005 Peter Lawrence was granted 500,000 Unapproved Options at 7.38p per Ordinary Share. These options are exercisable at 7.38p per Ordinary Share and are included in the aggregate number of Unapproved Options detailed in paragraph 4.2 above.
- 5.3 In addition, Richard Rose has been granted 500,000 options to subscribe for Ordinary Shares at 7p per Ordinary Share pursuant to a stand alone option deed dated 15 March 2005. These options are exercisable during the period commencing 15 September 2006 and ending on the earlier of (i) 15 March 2015; (ii) the date on which Mr Rose gives notice to the effect that his appointment as non-executive director shall terminate under the terms of his appointment; or (iii) the date on which the Company summarily terminates his appointment as a non-executive director under the terms of his appointment.
- 5.4 In addition, conditional upon Admission, Richard Edwards will be granted 3,333,333 EMI Options, which are exercisable until 3 November 2016 at a price of 3p per Ordinary Share and 9,220,601 Unapproved Options exercisable until 3 November 2016 of which 2,943,634 are exercisable at 3p per Ordinary Share, 3,766,180 are exercisable at 6p per Ordinary Share and 2,510,787 are exercisable at 9p per Ordinary Share. All options are vested on the date of grant. The Company will not require Richard Edwards to meet the Company’s secondary National Insurance contribution liability on these options.
- 5.5 Save as disclosed in paragraphs 5.1 to 5.4 above, none of the Directors nor the Proposed Director has any interests in the share capital or loan capital of the Company or any of its subsidiaries nor does any person connected with the Directors or the Proposed Director (within the meaning of section 346 of the Act) have any such interests, whether beneficial or non-beneficial.

5.6 In addition to their directorships in the Company, the Directors and the Proposed Director have held the following directorships and/or been a partner in the following partnerships within the five years prior to the date of this document:

(i) *Richard Rose*

*Current Directorships/Partnerships*

Electro Switch Limited  
Blueheath Holdings Plc  
Felix Group Plc  
NanoScience Inc

*Past Directorships/Partnerships*

AC Electrical Holdings Limited  
AC Electrical Wholesale Limited  
Runcorn Distribution Centre Limited  
Whittard of Chelsea Limited

(ii) *Peter Lawrence*

*Current Directorships/Partnerships*

Agil Limited  
Baronsmead AIM VCT Plc  
Baronsmead VCT Plc  
BH Products (Hanwell) Limited  
C-Corp Limited  
Eco Animal Health Limited  
Emmelle Developments Limited  
First State Investments AIM VCT Plc  
Higher Nature Limited  
Kiotech Limited  
Lawrence Plc  
Pet Love Limited  
Ultrabite Limited

*Past Directorships/Partnerships*

Idatchi Group Limited  
Lawrence 2004 Plc  
Metranol Chemicals Limited  
Mikki Pet Products Limited  
Ravenspring Property Management Company Limited  
Ringpress Publishing Limited  
The Really Disposable Litter Tray Company Limited  
Ellelle Developments Limited

(iii) *Richard Edwards*

*Current Directorships/Partnerships*

Richard Edwards Associates Ltd

*Past Directorships/Partnerships*

5.7 Save as disclosed in paragraph 5.8 below, no Director nor the Proposed Director:

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

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

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

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

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

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

- 5.8 Peter Lawrence was a director of Idatchi Group Limited which went into administrative receivership on 26 September 2001. The report to creditors dated 6 December 2001 shows amounts due to creditors totalling approximately £1.76 million. The abstract of receipts and payments dated 30 September 2005 shows a potential shortfall to creditors of approximately £1.43 million.
- 5.9 Save as disclosed in paragraph 5.1 above, and as set out below, the Directors are not aware of any person, directly or indirectly, jointly or severally, who exercises or could exercise control over the Company or who is interested in 3 per cent. or more of the issued share capital of the Company as at the date of the publication of this document and immediately following completion of the Placing and Admission:

<i>Name</i>	<i>As at the date of this document</i>		<i>Following the Placing and Admission</i>	
	<i>Ordinary Shares</i>	<i>%</i>	<i>Ordinary Shares</i>	<i>%</i>
Artemis VCT2	3,571,430	5.4	10,238,097	4.08
F & C Asset Management	2,912,574	4.4	36,245,908	14.44
First State Aim VCT	3,600,000	5.4	3,600,000	1.43
Framlington Investment Management	2,142,860	3.2	18,809,527	7.49
Invesco Asset Management	3,571,500	5.4	23,571,500	9.39
J P Morgan Asset Management	3,550,000	5.4	3,550,000	1.41
N C J Scott	2,397,003	3.6	2,397,003	0.95
RBS British Smaller Co. Fund	3,600,000	5.4	3,600,000	1.43
Unicom Asset Management	0	0	33,333,334	13.28
Williams de Broe	0	0	12,200,000	4.86

- 5.10 The Shareholders listed in paragraph 5.9 above, being the Company's major Shareholders, do not have different voting rights from other Shareholders.

## **6. Directors' and Proposed Directors' service agreements and terms of office**

- 6.1 The services of Richard Rose as executive Chairman are provided under the terms of an agreement with the Company dated 15 March 2005 subject to termination on one month's notice at a current fee of £50,000 per annum. In addition, Mr. Rose's service company Electro Switch Limited invoices the Company £5,000 per annum for provision of office and secretarial support services. Pursuant to the terms of this agreement Mr. Rose was also granted the options noted at paragraph 5.3 above.
- 6.2 The services of Peter Lawrence as non-executive director are provided under the terms of an appointment letter dated 21 September 2005. The appointment is subject to termination on one months notice by either party, save for certain circumstances where it may be terminated by the Company without notice. Pursuant to the terms of the appointment letter Mr Lawrence receives an annual fee of £15,000 and is entitled to be reimbursed for any expenses which are reasonably and properly incurred by him in the performance of his duties up to a maximum amount of £5,000 per annum. Mr Lawrence has also been granted options over 500,000 Ordinary Shares, further details of which are set out in paragraph 5.2.
- 6.3 The services of Richard Edwards are to be provided under the terms of a service agreement with the Company dated 3 November 2006 pursuant to which, conditional upon Admission, Mr Edwards is to be employed as Chief Executive Officer of the Company. The agreement is subject to termination by the Company and Mr Edwards on twelve months' and six months' notice respectively. Mr Edwards is entitled to a basic annual salary of £120,000 per annum, plus any performance related bonus arrangements determined by the board of up to 50 per cent. of his salary. The service agreement contains various post termination restrictions, generally lasting for six months following termination.
- 6.4 Save as set out in paragraphs 6.1 to 6.3 above, there are no service agreements in existence between any of the Directors and the Company or any of its subsidiaries providing for benefits upon termination of employment.

- 6.5 Details of the length of time in which the Directors who are currently in office and the period of their term of office are set out below:

<i>Name</i>	<i>Commencement of period of office</i>	<i>Date of expiration of term of office</i>
Richard Rose	17 March 2005	Annual General Meeting to be held in 2007
Peter Lawrence	24 August 2005	Annual General Meeting to be held in 2008

- 6.6 Following his appointment, Richard Edwards, as a director appointed since the Annual General Meeting held on 11 July 2006, will be required to stand for re-election at the Annual General Meeting to be held on 2007 pursuant to Article 99 of the Articles.
- 6.7 Each of John Loftus, Nicholas Scott and David Gyle-Thompson were directors of the Company during the last financial period of the Company. They resigned on 30 September 2005, 6 July 2006 and 6 July 2006 respectively.

## **7. Employees**

As at 31 December 2005 the Group had 3 employees who were Michael Salter, Nicholas Scott and Dan Scott. As at the date of this document the Group had 2 employees who are Michael Salter and Richard Rose.

Following completion of the Acquisition, the Enlarged Group will have 14 employees. The employees can be broken down into the following categories: two executive directors, two senior executives, one microbiologist, one commercial executive, two sale consultants, one production manager, three buyers and two administrators.

## **8. Material contracts**

The following contracts, not being contracts entered into in the ordinary course of business, have been entered into by the Company and/or its subsidiaries during the two years preceding the date of this document and are or may be material:

- 8.1 Pursuant to a deed of irrevocable offer dated 3 November 2006 entered into between Lawrence and the Company, Lawrence has agreed to sell the business and assets of Agil, the trading division of Lawrence to the Company (the "Offer") on the terms of the Acquisition Agreement, which is summarised in paragraph 8.2 below. The Offer is conditional, *inter alia*, on the passing of the Resolutions at the EGM and the Company raising at least £5,000,000 by the Placing.

Lawrence has undertaken to the Company that prior to completion of the Acquisition, the business of Agil will be carried on in the same manner as at the date of the deed, so as to maintain it as a going concern and has further agreed to conduct the business in a diligent and prudent manner in full consultation with the Company.

In the event that any of the conditions contained in the deed have not been waived or satisfied on or before 1 December 2006, the deed shall cease to have effect.

- 8.2 Pursuant to the Acquisition Agreement to be entered into between the Company and Lawrence, Lawrence will sell the business and assets of Agil, a trading division of Lawrence, to the Company for £5,500,000 of which £5,250,000 will be satisfied in cash (the "Cash Consideration"). The remaining £250,000 will be satisfied by the issue of the Consideration Shares. Of the Cash Consideration, the sum of approximately £555,000 will be retained by the Company in respect of certain book debts due to Agil, until such time as these sums are received. No payment of these sums received in respect of the relevant book debts shall be made until the expiry of 18 months from the date of Admission (or such earlier date as the Directors may agree).

Certain warranties will be given by Lawrence to the Company. Pursuant to the terms of the agreement Lawrence's maximum aggregate liability for any breaches of such warranties is £5,500,000. In addition, Lawrence will agree that it will fund the pension provisions in respect of two employees of Agil who are members of the Agil Division Pension and Assurance Scheme from completion of the



Acquisition in respect of their service with the Company. Lawrence will further agree that it will indemnify the Company in respect of one of the employees and give an undertaking to the Company in respect of the other employee, in respect of any failure by it to do so.

Lawrence will agree for a period of two years following completion of the Acquisition, *inter alia*, not to supply any products or services which compete with the products or services supplied by Agil as at completion of the Acquisition to any person, firm or company who or which was at Completion a client or customer of Agil and also not to solicit or endeavour to solicit the custom of any person, firm or company who was at completion of the Acquisition or in the preceding period of 12 months has been a client or customer of Agil for the supply of products or provision of services which are the same or compete directly with those sold by Agil. In addition Lawrence will agree for a period of two years from completion of the Acquisition that it will not carry on or be engaged with any business which competes with the business of Agil as carried on at completion of the Acquisition.

- 8.3 Pursuant to a nominated adviser and broker agreement dated 7 September 2006 between the Company (1) and JM Finn as nominated adviser and broker (2), the Company has appointed JM Finn to act as nominated adviser and broker to the Company for the purposes of AIM subject to termination at three months written notice by either party after an initial 12 month period. The Company has agreed to pay JM Finn a fee of £20,000 plus VAT per annum, increasing to £40,000 plus VAT on Admission. In respect of the Placing, the Company has agreed to pay JM Finn a four per cent. commission on the aggregate value at the Placing Price of the Placing Shares placed by JM Finn pursuant to the Placing together with a corporate finance fee.
- 8.4 Pursuant to the Placing Agreement dated 3 November 2006 between the Company (1), the Directors and the Proposed Director (2), and JM Finn (3), JM Finn has agreed to use its reasonable endeavours to arrange for Placees to subscribe for and/or purchase the 176,500,000 Placing Shares at the Placing Price. The Placing Agreement is conditional, *inter alia*, upon Admission taking place on or before 28 November 2006 or such later date as JM Finn and the Company may agree but in any event not later than 15 December 2006. The Company will pay to JM Finn a fee of £140,000 and a commission of 4 per cent. on the aggregate value of the Placing Shares at the Placing Price. The Placing Agreement provides for the Company to pay all expenses of and incidental to the Placing and the application for Admission, including the fees and costs of other professional advisers, all costs relating to the Placing, including printing, advertising and distribution charges, the fees of the registrars and the fees payable to the London Stock Exchange.

The Placing Agreement contains, *inter alia*, undertakings and warranties given by the Company, the Directors and the Proposed Director in favour of JM Finn as to the accuracy of information contained in this document and other matters relating to the Enlarged Group and its business and an indemnity from the Company in favour of JM Finn.

Under the terms of the Placing Agreement, each of the Directors and the Proposed Director has undertaken not to, and to procure that persons connected to him, do not sell, transfer or dispose of any Ordinary Shares held by him at the date of the agreement for a period of 12 months following Admission. In addition each of the Directors and the Proposed Director have undertaken for a further 12 months, and to procure that in the case of any connected person, that any sale or disposal will be effected through JM Finn provided that such terms are competitive. In each case these restrictions are subject to certain exceptions, including any sale or disposal with the prior consent of JM Finn.

JM Finn may terminate the Placing Agreement in specified circumstances prior to Admission, principally in the event of a material breach of the agreement or any of the warranties contained in it, or where any event of omission relating to the Group is, or will be in the opinion of JM Finn, material in the context of the Placing, or where any change of national or international, financial, monetary, economic, political or market conditions is, or will be in the opinion of JM Finn, materially adverse to the Company or the successful outcome of the Placing.

- 8.5 Pursuant to an agreement dated 3 November 2006 entered into between Lawrence (1), the Company (2) and JM Finn, Lawrence has undertaken, conditional upon Admission, not to sell, transfer or

dispose of the Consideration Shares for a period of 12 months following Admission. In addition Lawrence has undertaken for a further 12 months that any sale or disposal of such shares will be effected through JM Finn provided that such terms are competitive. In each case these restrictions are subject to certain exceptions, including any sale, transfer or disposal with the prior consent of JM Finn.

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

The Company agreed to pay royalties to CEFAS as follows:

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

The Company is obliged to mark all Licensed Products to reflect the involvement of CEFAS and CEFAS is granted the right to approve or amend the marketing, get-up and labelling of Licensed Products and any other promotional and commercial material. CEFAS also agrees to provide the Company access to its research facilities and development services in mutually agreed terms. CEFAS also grants to the Company the right of first refusal with regard to exploitation rights for any intellectual property owned or developed in the future by CEFAS which relates to or is concerned with influencing fish behaviour. CEFAS also grants to the Company a right of first refusal with regard to exploitation rights for any intellectual property owned or developed in the future by CEFAS which relates to or is concerned with pheromone based products that influence fish behaviour. CEFAS agrees to maintain the CEFAS Patent in jurisdictions agreed between CEFAS and the Company.

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

The Company indemnifies CEFAS, and the Crown against claims, damages, costs and expenses arising directly or indirectly out of or in relation to the manufacture, use, sale or supply of Licensed Products or any breach by the Company of its obligations under the Varied Licence. The Company



agrees to maintain insurance cover in respect of risks arising out of its obligations under the Varied Licence.

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

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

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

Assignment of the Varied Licence is prohibited without agreement.

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

8.7 Pursuant to an agreement dated 15 October 2002 the Company granted a sub-licence of its rights under the Varied Licence to Ultrabite Limited.

8.8 Pursuant to an agreement dated 20 September 2005 entered into between the Company (1) and Rapala (2), Kiotech appointed Rapala as its master distributor of Ultrabite to the sport fishing and commercial fishing markets. In the case of the sports fishing market, Rapala has the right, pursuant to the terms of the agreement to act as exclusive distributor of Ultrabite and in addition to purchase Ultrabite to package it or mix it with bait for onwards sale. In the case of the commercial fishing market, Rapala's rights are non-exclusive. In addition, pursuant to the terms of the agreement Rapala assumed Ultrabite Limited's obligations under that company's existing distribution agreements, and has indemnified the Company and Ultrabite in respect of any breach of those obligations by Rapala after 1 October 2005.

The agreement, which is for a term of 15 years, may be terminated earlier by Kiotech in certain circumstances which include in the event that the CEFAS licence which is summarised in paragraph 8.6 above is terminated (in which case the agreement is terminable immediately), or in the event that at any time after 1 May 2008 the aggregate amount of Ultrabite ordered by Rapala in any sales year does not exceed the minimum level specified in the agreement (in which case the agreement is terminable on 3 months notice). In addition the agreement is terminable on written notice by either party, *inter alia*, in the event of a material breach by the other party which is not remedied within 60 days of receipt of written notice from the party seeking to terminate the agreement.

8.9 Pursuant to a placing agreement dated 24 June 2005 entered into between the Company (1), the directors (2) and JM Finn (3) the Company appointed JM Finn to procure subscribers for 31,657,000 Ordinary Shares at 7p per share. The agreement contained certain warranties and indemnities from the directors and the Company in favour of JM Finn.

8.10 Pursuant to an option agreement dated 24 June 2005 entered into between the Company (1) and Smith's Corporate Advisory Ltd. ("Smiths") (2) pursuant to which Smith's have been granted an option to subscribe for 345,883 Ordinary Shares at a price of 17.2p per share exercisable for 3 years from 30 June 2005.

8.11 The share option deeds entered into between the Company and each of Nicholas Scott, David Gyle-Thompson and Richard Rose referred to in paragraphs 4 and 5 above.

8.12 Upon Admission, Kiotech will enter into a service agreement with Lawrence pursuant to which Lawrence will continue to provide Kiotech with accounting services and company secretarial services

for an annual fee of £37,500 plus VAT. Either party can terminate the agreement by giving six months notice.

## **9. Taxation**

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

**This is only a summary of the tax reliefs available to investors and should not be construed as constituting advice which a potential investor should obtain from his or her own investment or taxation adviser before subscribing for Ordinary Shares.**

### *Inheritance Tax Relief*

Provided a Shareholder has owned shares in a qualifying company for at least two years and certain conditions are met at the time of the transfer, 100 per cent. business property relief is available, which reduces the inheritance tax liability on the transfer to nil.

### *EIS Income Tax Relief*

An investor subscribing for Ordinary Shares will be entitled to claim income tax relief on amounts subscribed up to a maximum of £400,000 for any given year of assessment at the lower rate of income tax. This is currently 20 per cent. providing, on current rates, a maximum tax saving of £80,000. EIS relief is limited to the amount which reduces the investor's liability to nil.

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

### *EIS Capital Gains Tax Relief*

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

### *EIS Capital Gains Deferral Relief*

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

### *Income Tax*

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

Individual Shareholders resident for tax purposes in the United Kingdom should generally be entitled to a tax credit in respect of any dividend received. The amount of this tax credit in respect of dividends paid is currently set at 1/9 of the amount of the dividend. Such an individual Shareholder's liability to United Kingdom income tax is calculated on the aggregate of the dividend and the tax credit which will be regarded as the top slice of the individual's income. The tax credit is therefore currently set at 10 per cent. of the combined amount of the dividend and the tax credit. The tax credit will be available to offset such Shareholder's liability (if any) to income tax on the dividend. The tax credit will discharge the income tax liability of an individual Shareholder who is not liable to income tax at a rate greater than the basic rate. A Shareholder who is liable to income tax at the higher rate (currently 40 per cent.) has further income tax to

pay at a rate of 22.5 per cent. of the dividend and related tax credit. The tax credit cannot be reclaimed from HM Revenue & Customs.

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

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

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

**Any person who is in any doubt as to his or her tax position or who may be subject to tax in any jurisdiction other than the United Kingdom should consult his or her own professional adviser.**

### **10. Premises**

Following completion of the Acquisition the Enlarged Group's principal establishments (all of which are leasehold) will be as follows:

<i>Property</i>	<i>Tenure</i>	<i>Lease expiry date</i>	<i>Annual rent (unless otherwise stated)</i>
Unit 2, Hercules House, Carella Industrial Park, Aldermaston, Berkshire	Leasehold	28/9/2983	£200
The Hangar, Ramsbury Road, Membury	Leasehold	2/12/2012	£37,500

### **11. Working capital**

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

### **12. Litigation**

There are no, and during the 12 month period prior to the date of this document there have not been any, governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware) which may have, or have had in the recent past, significant effects on the Company's or the Enlarged Group's financial position or profitability.

### **13. General**

- 13.1 There are no patents or other intellectual property rights, licences or particular contracts which are of fundamental importance to the Company's business, except as set out in Part I and paragraph 8 of this Part VII.
- 13.2 The expenses of the Placing and Admission are estimated to be £600,000, excluding VAT and are payable by the Company.

- 13.3 Except for fees payable to the professional advisers whose names are set out on page 8 above or payments to trade suppliers, no person has received any fees, securities in the Company or other benefit to a value of £10,000 or more, whether directly or indirectly, from the Company within the 12 months preceding the application for Admission, or has entered into any contractual arrangement to receive from the Company, directly or indirectly, any such fees, securities or other benefit on or after Admission.
- 13.4 Save as disclosed in this document, there has been no significant change in the financial or trading position of the Group since 30 June 2006, the date to which its most recent unaudited interim results have been drawn up, or of Agil since 31 March 2006.
- 13.5 With the exception of any arrangements summarised in Parts III and V no member of the Enlarged Group is, nor has been, a party to any transactions with related parties which were material to the Enlarged Group.
- 13.6 Where information has been sourced from a third party, the Company confirms that this information has been accurately reproduced and as far as the Company is aware and is able to ascertain from the information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.
- 13.7 FW Stephens is a member of the Institute of Chartered Accountants in England and Wales.
- 13.8 BDO Stoy Hayward LLP has given and has not withdrawn its written consent to the inclusion in this document of its Accountant's Report set out in Part V of this document and its report on the pro forma statement of net assets set out in Part VI of this document in the form and context in which they appear and has authorised its Accountant's Report and its report on the pro forma statement of net assets for the purposes of the AIM Rules.
- 13.9 JM Finn has given and not withdrawn its written consent to the issue of this document and the references to them in the form and context in which such references are included.

#### **14. Availability of document**

Copies of this document will be available free of charge to the public at the registered office of JM Finn during normal business hours on any weekday (Saturdays and public holidays excepted) until the date falling one month after the date of Admission.

Dated 3 November 2006.

# KIOTECH PLC

*(Incorporated in England and Wales with registered number 03345857)*

## NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an Extraordinary General Meeting (“Extraordinary General Meeting”) of the Company will be held at the offices of Lawrence Graham LLP at 190 Strand, London WC2R 1JN on 27 November 2006 at 10.00 a.m. for the purpose of considering and, if thought fit, passing the following resolutions:

### ORDINARY RESOLUTIONS

1. THAT the proposed acquisition (“the Acquisition”) by the Company of the business and assets of Agil, on the terms of the agreement to be entered into between Lawrence Plc (“Lawrence”) and the Company (“the Acquisition Agreement”) described in the admission document sent to shareholders of the Company dated 3 November 2006 be and is hereby approved and that the board of directors of the Company (or a duly constituted committee of that board) be and is hereby authorised to waive, amend, vary or extend any of the terms and conditions of the Acquisition or the Acquisition Agreement (but not to any material extent) and do all such things as it may consider necessary or desirable in connection with the Acquisition.
2. THAT, subject to the passing of Resolution 1, the Acquisition by the Company of the business and assets of Agil from Lawrence, a company of which Peter Lawrence is a director of and a shareholder in, in accordance with the terms of the Acquisition Agreement is in the best interests of the Company and the entering into (and implementation of the terms) of such agreement by the Company be and is hereby approved for the purposes of section 320(1) of the Companies Act 1985 (as amended) (substantial property transactions involving directors).

### SPECIAL RESOLUTION

3. THAT subject to the passing of Resolutions 1 and 2 above and in substitution for all previous authorities which are hereby revoked:
  - 3.1 the directors be and they are hereby generally and unconditionally authorised (in substitution for any existing such powers) for the purposes of section 80 of the Companies Act 1985 (the “Act”) to exercise all the powers of the Company to allot relevant securities up to an aggregate nominal amount of £2,676,893 provided that this authority shall expire 15 months from the date of this resolution or at the Company’s next Annual General Meeting if earlier and that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities in pursuance of such offer or agreement notwithstanding that the authority conferred hereby has expired and in this resolution the expression “relevant securities” and references to the allotment of relevant securities shall bear the same respective meanings as in section 80 of the Act; and
  - 3.2 the directors be and they are hereby empowered (in substitution for any existing such powers) pursuant to section 95 of the Act to allot equity securities for cash pursuant to the authority conferred by sub-paragraph 3.1 as if section 89(1) of the Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities:
    - 3.2.1 in connection with an offer of such securities by way of rights to holders of ordinary shares in proportion (as nearly as may be practicable) to their respective holdings of such shares, but subject to such exclusions or other arrangements as the directors may deem necessary or expedient in relation to fractional entitlements or any legal or practical problems under the laws of any territory, or the requirements of any regulatory body or stock exchange; and

3.2.2 otherwise than pursuant to sub-paragraph 3.2.1 above up to an aggregate nominal amount of £2,016,079.

and shall expire on the conclusion of the next Annual General Meeting of the Company after the passing of this resolution or 15 months from the date of this resolution, whichever is earlier, save that the Company may, before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of any such offer or agreement notwithstanding that the power conferred hereby has expired and in this resolution the expression “equity securities” and references to the allotment of equity securities shall bear the same respective meanings as in section 94 of the Act.

*Registered office:*

78 Coombe Road, New Malden, Surrey KT3 4QS

By order of the Board

Lawrence plc

*Company Secretary*

Dated: 3 November, 2006

Notes:

1. A member entitled to attend and vote at the Extraordinary General Meeting may appoint one or more persons to attend and, on a poll, to vote instead of him or her. Lodgement of a Form of Proxy will not prevent a member from attending and voting at the meeting.
2. A proxy need not be a member of the Company.
3. A Form of Proxy is enclosed. To be valid, the Form of Proxy, together with the authority (if any) under which it is executed or a notarially certified copy of such authority, must be returned to Share Registrars Limited by no later than 48 hours before the time of the meeting or (as the case may be) the adjourned meeting.
4. The completion and return of a Form of Proxy will not preclude a member from attending and voting in person at the meeting.
5. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company has specified that only those shareholders registered on the register of members of the Company as at 10.00 a.m. on 25 November 2006 or, if the Extraordinary General Meeting is adjourned, on the register of members not less than 48 hours before the time of any adjourned meeting, shall be entitled to attend and vote at the meeting in respect of the number of ordinary shares in the Company registered in their name at that relevant time. Changes to entries on the register of members after 10.00 a.m. on 25 November 2006 or, if the Extraordinary General Meeting is adjourned, on the register of members not more than 48 hours before the time of any adjourned meeting, will be disregarded in determining the right of any person to attend and vote at the meeting.



