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**Attention is drawn to Part II of this Document entitled “Risk Factors”.**

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## **Byotrol plc**

*(Incorporated in England and Wales under the Companies Act 1985 with Registered No: 5352525)*

Placing of 13,043,478 Ordinary Shares of 0.25 pence each at 23 pence per Share  
and  
Admission of the Ordinary Shares to trading on the AIM Market

Nominated Adviser  
**Matrix Corporate Finance**

Financial Adviser  
**Merchant Capital plc**

Broker  
**Fiske plc**

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The Directors, whose names appear on page 3 of this Document, accept responsibility individually and collectively for the information contained in this Document. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this Document is in accordance with the facts and does not omit anything likely to affect the import of such information.

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## **DIRECTORS, SECRETARY AND ADVISERS**

### **Directors**

Wreford Wesley Devoto OBE (Non-executive Chairman)  
David Martyn McRobbie (Chief Executive Officer)  
Stephen Brian Falder (Business Development Director)  
Dr Peter Charles Dandalides, MD (Healthcare Director)  
Ian Howard Mainman LLB (Non-executive Director)

all of:

### **Principal place of business of the Company**

Riverside Works  
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Manchester  
M40 7RU

### **Company Secretary**

HL Secretaries Limited  
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Brown Street  
Manchester M2 2JF

### **Financial Adviser**

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London EC4N 1TX

### **Nominated Adviser**

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### **Auditors and Reporting Accountants**

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Lincoln Square  
Manchester M2 5BL

### **Solicitors to the Company**

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St James's Court  
Brown Street  
Manchester M2 2JF

### **Solicitors to the Placing**

Memery Crystal  
44 Southampton Buildings  
London WC2A 1AP

### **Registrars**

Capita Registrars  
The Registry  
34 Beckenham Road  
Beckenham  
Kent BR3 4TN

### **Principal Bankers**

Lloyds TSB plc  
1 King Street  
Manchester M2 4WQ

## DEFINITIONS

“Act”	Companies Act 1985, as amended
“Admission”	the admission of the entire issued and to be issued ordinary share capital of the Company to trading on the AIM Market becoming effective in accordance with the AIM Rules
“AIM”	the AIM Market of London Stock Exchange
“AIM Rules”	the rules of AIM published by London Stock Exchange
“Directors” or “Board”	the Directors of the Company as at the date of this document whose names are set out on page 3 hereof
“the Company” or “Byotrol”	Byotrol plc
“Connected Person”	any connected person of the Directors as defined in Section 346 of the Act
“CREST”	the system for paperless settlement trades and the holding of uncertificated shares operated by CREST Co Limited
“CREST Regulations”	the Uncertificated Securities Regulations 2001 (SI 2001 No. 3755)
“Document”	this document
“Fiske”	Fiske plc, broker to the Company
“FSMA”	the Financial Services and Markets Act 2000 as amended including any regulation made pursuant thereto
“Group”	the Company and its subsidiary undertakings
“London Stock Exchange”	London Stock Exchange plc
“Matrix Corporate Finance”	Matrix Corporate Finance, a division of Matrix-Securities Limited, Nominated Adviser to the Company
“Merchant Capital”	Merchant Capital plc, Financial Adviser to the Company
“Official List”	the Official List of the Financial Services Authority in its capacity as the UK Listing Authority
“Ordinary Shares”	ordinary shares of 0.25p each in the share capital of the Company
“Patent Cooperation Treaty” or “PCT”	an international system whereby applicants can seek patent protection in multiple territories by filing a single international application. The Treaty is open to States Party to the Paris Convention for the Protection of Industrial Property and is administered by the World Intellectual Property Organisation, which is part of the United Nations
“Placees”	subscribers for Placing Shares
“Placing”	the conditional placing of the Placing Shares at the Placing Price on behalf of the Company as described in this Document, pursuant to the Placing Agreement
“Placing Agreement”	the conditional agreement dated 30 June 2005 between (1) the Company, (2) Matrix Corporate Finance, (3) Merchant Capital and (4) the Directors further details of which are set out in paragraph 14 of Part IV
“Placing Price”	23p per Placing Share
“Placing Shares”	the 13,043,478 new Ordinary Shares which are the subject of the Placing

<i>“POS Regulations”</i>	the Public Offers of Securities Regulations 1995 (as amended)
<i>“QCA”</i>	the Quoted Companies Alliance
<i>“Shareholders”</i>	the persons who are registered as at the date of this document as the holders of Ordinary Shares
<i>“UK” or “United Kingdom”</i>	the United Kingdom of Great Britain and Northern Ireland
<i>“UK Listing Authority”</i>	the Financial Services Authority in its capacity as the competent authority for the purposes of Part VI of FSMA
<i>“US” or “USA”</i>	the United States of America

## GLOSSARY OF TERMS

<i>biocide</i>	chemical or physical agents that kill micro-organisms
<i>biofilm</i>	layers of micro-organisms (generally bacteria) attached to a surface by a variety of biologically generated secreted materials to form a sticky mass
<i>cleaner</i>	agent used to remove soilage from substrates
<i>E. coli</i>	rod-shaped bacterium generally found in mammalian gut, a variety of which, the O157 organism, is a risk to human health
<i>EPA</i>	Environmental Protection Agency in the USA
<i>FDA</i>	Food and Drug Administration in the USA
<i>legionella</i>	bacteria which frequently occur in water systems and are the causal organism of a serious respiratory condition in humans
<i>listeria</i>	common bacteria which represent a serious potential contaminant of the food production process and the cause of a serious gastrointestinal condition in vulnerable groups
<i>MRSA</i>	methicillin resistant <i>Staphylococcus aureus</i> : a drug resistant strain of the common skin bacterium <i>S. aureus</i> . This organism is a significant opportunistic pathogen and causes hospital-acquired infections
<i>polymer</i>	chemical compound made from covalently bonded multiples of a molecule. The repeating unit (monomer) is usually a simple molecule of relatively low molecular weight, while the polymer usually has a very high molecular weight and substantially different properties than the monomer. A typical example is polythene (poly ethylene) where the monomer, ethylene, is a gas while the polymer is a stable plastic solid
<i>polysiloxane</i>	polymer family of chemicals created by multiples of siloxane monomers
<i>preservative</i>	agent that controls decay typically caused by micro-organisms prolonging the period of time before damage or spoilage occurs
<i>sanitise</i>	to make sanitary, as by cleaning or sterilisation
<i>VRE</i>	vancomycin resistant Enterococci, drug resistant strains of a common intestinal bacteria, Enterococci

## **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.

Certain risks to and uncertainties for the Company are specifically described in Part II of this Document headed "Risk Factors". If one or more of these risks or uncertainties 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 POS Regulations, the AIM Rules or by the rules of any other securities regulatory authority, whether as a result of new information, future events or otherwise.

## PLACING STATISTICS

Placing Price	23 pence
Number of Placing Shares	13,043,478
Number of Ordinary Shares in issue immediately following Admission	34,872,849
Market capitalisation of the Company on Admission at the Placing Price	£8.0 million
Percentage of the enlarged issued share capital subject to the Placing	37.40 per cent.
Gross proceeds of the Placing	£3.0 million
Estimated net proceeds of the Placing receivable by the Company	£2.5 million

## EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Publication of this Document	30 June 2005
Admission and dealings expected to commence in Ordinary Shares on AIM	6 July 2005
CREST accounts credited	6 July 2005
Despatch of definitive share certificates in respect of the Placing Shares	by 20 July 2005



## KEY INFORMATION

*The following summary should be read in conjunction with the full text of this Document from which it is derived. Investors should read the whole of this Document and should not rely solely on the “Key Information” set out below. In particular, your attention is drawn to the section entitled “Risk Factors” in Part II of this Document.*

### **The Business**

- Byotrol has developed and patented a new microbial control technology which uses chemical and physical forces to control and eradicate most groups of micro-organisms.
- The technology provides a platform for a range of products initially focused on the healthcare, food processing and industrial sectors.
- Initial sales of Byotrol’s products have been made in a number of territories and sectors but have been intentionally limited in scale by the Company’s strategy to date. With these sales demonstrating the commercial viability of the product range, the Company has identified significant customer demand in its initial target sectors.
- The Directors have been encouraged by the market response to Byotrol’s products and anticipate further orders once additional regulatory approvals are in place.

### **Key Features of Byotrol’s Products**

- Byotrol’s products use a polymer with highly effective and targeted physical properties in combination with a selected range of chemical biocides to satisfy all the criteria that the Directors consider to be required for an ideal biocidal agent.
- Byotrol’s products work on two levels by eradicating micro-organisms on application through biocidal action and then providing continuing protection as a result of their surface-active properties, which disrupts the biofilm formation process necessary for micro-organism reproduction.
- Byotrol’s products can be sold in a variety of forms and can contain a variety of different biocides, depending on the target situation and the customer requirements. The manner of delivery is designed to offer optimum microbial control in the particular situation. The product can be made available in a ready for use liquid or spray format, as a concentrate, as part of a patented “fogging” system or incorporated into a third party product.

### **The Placing and Admission to AIM**

- The Company has conditionally raised £3.0 million through a Placing of new Ordinary Shares at a price of 23p per Ordinary Share which will represent 37.4 per cent. of the enlarged issued share capital of the Company and is seeking admission of its entire ordinary share capital to trading on AIM.
- The net proceeds of the Placing will be used to fund additional regulatory and other approvals, augment the Company’s intellectual property portfolio, additional product development, strengthen the Company’s sales and marketing infrastructure and provide the working capital necessary to service anticipated orders.
- The Directors believe that Admission to trading on AIM will enhance the Company’s profile and give the Company additional credibility, particularly with existing and future partners.
- The Company has received provisional assurance from HM Revenue and Customs that the Ordinary Shares will be qualifying for the purposes of EIS and VCT reliefs.

## PART I

### INFORMATION ON THE COMPANY

#### Introduction

Byotrol has developed and patented a new microbial control technology which uses chemical and physical forces to control and eradicate most groups of micro-organisms. The technology provides a platform for a range of products initially focused on the healthcare, food processing and industrial sectors. The Directors have been encouraged by the market response to Byotrol's products and anticipate further orders once additional regulatory approvals are in place. The Company has conditionally raised £3.0 million through the Placing and is seeking admission of its entire issued and to be issued ordinary share capital to trading on AIM. The net proceeds of the Placing will be used principally to fund additional regulatory approvals, augment the Company's intellectual property portfolio, additional product development, to provide the working capital necessary to service the anticipated orders and to strengthen the Company's sales and marketing infrastructure to enable it to service the growing number of distributors and partners.

#### Background

The business was established as Byotrol LLC in January 2001 by HMG America LLC a subsidiary of H. Marcel Guest Ltd ("HMG"), a well established specialist paints and coatings business. As a by-product of HMG's research and development activities, Stephen Falder and David Rawden invented and patented a new antimicrobial technology and Byotrol LLC was formed specifically to develop and exploit the technology which now underpins the Company's product range.

Patent applications were filed in the UK in January 2001 and for the US and, under the Patent Cooperation Treaty, other key international territories in January 2002. The UK patent was granted on 23 March 2005 and the other applications are pending. The Byotrol name and logo are registered trademarks in the UK and USA.

In March 2001, Byotrol completed its first product sale to Agard ehf Ltd, an Icelandic fisheries supplier company. In 2002, equity funding of US\$1.3 million was received from Mr Ragnar Olafsson, the principal shareholder of Agard ehf Ltd. Byotrol's products have now been sold in the US, UK, South Africa, Europe and Scandinavia to customers including Icelandic Shellfish Company, Marine Harvest Limited, Y2K Aviation Limited and Cutty Sark Preservation Trust with sales to April 2005 totalling in excess of £300,000.

While the Company has been able to sell certain products to date within existing regulatory approvals and in certain unregulated markets, the Directors have limited sales to product testing and test marketing, follow-on sales to customers who have participated in these trials and sales arising from customers approaching the Company. The Company will use part of the proceeds of the Placing to implement its sales and marketing strategy.

In May 2005 Byotrol plc was established and acquired Byotrol LLC.

HMG has supplied raw materials and provided some subcontract manufacturing to Byotrol since 2001. In addition, Byotrol's premises are sited on the HMG facility in Manchester. Following Admission, it is likely that HMG will continue to perform some subcontract manufacturing and, until alternative premises are required, will continue to provide Byotrol with premises on an arm's length basis. Stephen Falder is a non-executive director of, and shareholder in, HMG.

#### Technology

The most effective and proven methods of microbial control use physical extremes such as heat and pressure whereas the most convenient methods use a chemical agent. Byotrol's products use a polymer with highly effective and targeted physical properties in combination with a selected range of chemical biocides to satisfy all the criteria that the Directors consider to be required for an ideal biocidal agent.

Byotrol's technology gives rise to varying surface tensions. Surface tension is the force acting on a liquid-gas interface resulting in a thin film on the surface. It has an increasing effect on objects as they get smaller in size. Byotrol's products have a chemical architecture that creates steep alternating gradients of low and high surface tensions. This physical effect has a bearing on all types of micro-organisms, including drug resistant strains, substantially disrupting their ability to reproduce and form and maintain biofilms. This effect puts the micro-organism under stress and the suppression of the ability to reproduce materially reduces the virulence and hence the risk caused by the presence of micro-organisms. Additionally, suppressed or arrested reproduction results in a change in the demographic profile of the micro-organism population, with rapidly

increasing numbers of ageing and senescent cells. The blend of biocides chosen in the particular product then quickly completes sanitisation by inducing cell lysis (i.e. bursting).

In Byotrol's products, the chosen biocides are physically rather than covalently attached to a polysiloxane backbone. Byotrol has patented its innovation of attaching multiple biocides to a polymer backbone to give a substance which the Directors believe has important biocidal and surface-active properties. Since the biocides are not chemically bonded, Byotrol's materials should not be considered as new substances and this is highly advantageous from a regulatory perspective. Rather than being considered a new set of biocidal agents, Byotrol's approach is better thought of as a product architecture that significantly improves the performance of existing (approved and registered) antimicrobials. This approach allows the biocidal payload in a particular product to be customised according to different microbial targets, market demand and regulatory requirements. As a result, Byotrol's products are not dependent upon the effectiveness or regulatory status of any single biocidal agent or groups of such agents. The biocides used can be custom tailored to customer requirements and specific applications.

### Product Description

Byotrol's products work on two levels by eradicating micro-organisms on application through biocidal action and then providing continuing protection as a result of their surface-active properties, which disrupt the biofilm formation process necessary for micro-organism reproduction. Byotrol's products have the following characteristics:

- **Residual, durable and long lasting effectiveness:** Byotrol's products provide continuing protection after application.
- **Broad-based efficacy:** effective against a wide range of micro-organisms including bacteria, algae, fungi and viruses including "Hospital Superbugs" such as MRSA and VRE.
- **Low risk of resistance:** unlike products which rely purely on chemical action, Byotrol's products are associated with a low risk of the development of resistant strains as the products' efficacy derives principally from a physical process, albeit supplemented by biocidal action.
- **Low toxicity:** Byotrol's products are not poisonous to humans, animals or plants and leave no toxic residues.
- **Easy to use:** the products are simple to apply and no training or special safety precautions are required.
- **Environmentally friendly:** the products are fully biodegradable and will break down when in landfill or waste water.

Byotrol's products can be applied in a variety of forms depending on the target situation and the customer type. The manner of delivery is designed by the Company to offer optimum microbial control in the particular situation. Byotrol's products can be made available in a ready for use liquid or spray format, as a concentrate, as part of a "fogging" system or incorporated into a third party product (e.g. washing powder, paint or paper). Byotrol's products can be used as a cleaner, sanitiser, deodoriser, additive or preservative.

### Intellectual Property

The technology is subject to a number of patent applications in the UK, USA and, by means of a PCT application, 25 other international territories. The main UK patent, which was granted in March 2005, relates to the physical attachment of two or more biocides to a polymer backbone. This patent has been expanded upon with the PCT patent and the US patent, both filed in January 2002 and currently pending. The PCT based application in South Africa was granted in September 2004.

A summary of the patents covering the Company's core technology is given in the table below.

<i>Country</i>	<i>Filing date</i>	<i>Application No.</i>	<i>Grant No.</i>	<i>Status</i>
UK	4 January 2001	0100155.1	2374011	Granted
South Africa	2 January 2002	2003/5185	2003/5185	Granted
US	4 January 2002	10/039677	—	Pending
China	2 January 2002	02804949.7	—	Pending
Europe*	2 January 2002	02740031.6	—	Pending
Australia	2 January 2002	2002216292	—	Pending
Canada	2 January 2002	2433767	—	Pending
India	2 January 2002	01031/DELNP/2003	—	Pending
Singapore	2 January 2002	200304045-8	—	Pending

\*Designates Austria, Belgium, Switzerland and Liechtenstein, Germany, Denmark, Spain, France, UK, Greece, Ireland, Italy, Luxembourg, Monaco, Netherlands, Portugal, Sweden, Finland, Cyprus and Turkey.

In addition, the Company has a policy of seeking applications for “use” patents where the technology brings additional benefits beyond the immediate antimicrobial use. There is currently one patent filed for the use of Byotrol’s products as a preservative and embalming fluid (i.e. as a substitute for formaldehyde based products). Two further “use” patent applications are currently being progressed on a joint basis with third party development partners. The Directors consider that by filing joint applications in specific areas the Company enhances the protection of its intellectual property base by making available the resources of well established partners in the event of any alleged infringement.

The Company will apply part of the proceeds of the Placing to the preparation and filing of these and other additional “use” patents and funding additional research aimed at augmenting the core technology patents.

### **Regulatory Environment**

The biocide industry is heavily and increasingly regulated. This environment is favourable to Byotrol in a number of ways. Byotrol’s products are formulated using registered biocides which expedites the regulatory approval process. The current regulatory environment has reduced the number of available biocides in the marketplace. The period of change has created opportunities within the Company’s existing and potential customer base, as many are being compelled to change the biocides they use.

In the USA, the regulatory environment is concerned not just with the composition of materials but the efficacy and anti-microbial claims made about the products. EPA registration is essential for substantial sales into key markets in the USA and is recognised in many other countries as well. The Company already has an EPA registration as a “cleaner deodoriser” for one of its products but is currently not allowed to claim any anti-microbial action. The registration of the anti-microbial claims by the EPA is an important part of the Company’s strategy.

In the UK, Byotrol’s products are subject to regulation by the Biocides & Pesticides Unit of the Health and Safety Executive. Byotrol’s products can be sold under the current regime provided the ingredients used are themselves approved. A range of claims can be made provided they are the same as those made by the original ingredient supplier under their approval.

The Directors believe most of Byotrol’s products will come under the scope of the EU Biocidal Products Directive (“BPD”). Under the BPD regime, any claims that are made must be the same as those for the active ingredients used and it is the active ingredients which must be approved by the appropriate regulatory authority. The Directors believe the Company’s technology means it can ensure its products are formulated in compliance with the BPD regime by restricting their use of active ingredients to those that are approved.

As the Company develops products for higher level indications in the healthcare market (e.g. antiseptics) there will be a requirement for approval by the FDA and additional approvals in Europe. The Company will seek to establish joint ventures or licensing arrangements with established partners in relation to these higher level products and, as part of these arrangements, the Company’s partners will be required to facilitate and fund, in whole or in part, the FDA and other approval processes as appropriate. The proceeds of the Placing will be used to seek full registration in the USA for a disinfectant and mould control product which will allow entry into numerous markets including healthcare, food processing and consumer products.

### **Market Opportunity**

The demand for biocidal materials is increasing globally as growing public concern about health and hygiene places demands on suppliers either to supply products that are, or operate in conditions that are, microbially controlled. Statistics for world biocide demand show this increase but mask even greater growth in opportunity for Byotrol’s products. According to Freedonia Group Inc., world demand for biocides was US\$4.5bn in 2001 and is projected to increase at a rate of 5.6 per cent. per annum to US\$5.9bn in 2006. These values are for biocide concentrates, not ready-for-use biocidal products or treated articles. The Directors believe the market for ready-for-use biocidal products and treated articles is substantially larger. In 2006, America and Western Europe will remain, they believe, the largest regional markets, accounting for about two-thirds of overall demand. The Asia Pacific region, due to double-digit growth in China, is expected by the Directors to register the fastest growth to become the second-largest regional market by the end of the decade.

The Directors believe the current environment in the global biocide market is very favourable to the Company and that several conditions are in place to support its growth. These include:

### *Regulatory barriers to entry for new biocidal chemicals*

Regulatory pressures are substantially reducing the number of current biocidal materials available for use and, with the implementation of the BPD, the Directors believe it will become increasingly difficult to win approval for new biocides. Byotrol is well placed to take advantage of the regulatory environment since its technology enhances the performance of existing biocides.

### *Environmental considerations*

Public concern over biocide pesticide residues is increasing and is a major force for market change. Recent concern over waste water residues resulting from Triclosan use (*The Daily Telegraph*, 12 April 2005) and widespread concern over environmental impact of pesticide and biocide waste all favour Byotrol's technology.

### *Increasing concern over Hospital Superbugs and wide use of certain antimicrobials*

There are increasing concerns over hospital cleanliness and resistant strains, whilst health professionals are wary of unknown new agents that might add to the problems. In addition, several recent studies have highlighted substantial potential risks associated with widely used disinfection and sanitisation agents.

### *Increasing concern over risk of contamination in the food preparation industry*

The food preparation industry recognises the threat from microbial contamination to markets in general and individual businesses, in particular. These threats are amplified by a fear of new chemicals. In this state of raised awareness, the Directors believe that Byotrol's technology, which provides enhanced microbial control by combining well known and easily understood chemical agents with its patented physical process, has the performance required to combat microbiological threats and offers reassurance to food preparation industry experts.

## **Third Party Tests and Commercial Trials**

The Company's products have undergone extensive efficacy and safety tests with a number of third party agencies and institutions in order to support its claims and gain approval for sales into specific markets. The claims made in respect of Byotrol's existing products are underwritten by test data and/or validations from organisations including the EPA, the Campden and Chorleywood Research Agency in the UK, the Icelandic Government (Icelandic Fisheries Laboratory), the Karolinska Institute in Sweden, Infrutec in South Africa and Microbac Analytica Limited.

In these tests, Byotrol's products have been shown to be effective against a broad spectrum of microbial targets including bacteria, viruses, fungi and algae. Whilst Byotrol's technology has been shown to be effective against micro-organisms including legionella, listeria, methicillin resistant *Staphylococcus aureus*, *Pseudomonas aeruginosa*, salmonella and *Staphylococcus aureus*, the Directors are confident that additional testing will show the product to be effective against a wide range of additional micro-organisms with similar characteristics.

In addition to the sales that have been made as part of the Company's test marketing to date, successful commercial trials have been completed with potential customers including Woolworths in South Africa (sanitisation of food products and extension of shelf life), Shiloh Plc (sanitisation of orthopaedic equipment), Gold Kist, Inc, (sanitisation of a food processing plant) and Bournemouth Council (anti-microbial coating for road signs).

The Company is in discussions with a number of NHS and other hospitals with a view to demonstrating the efficacy of Byotrol's products in the hospital environment. The Directors believe Byotrol's technology can considerably enhance the effectiveness of existing hygiene practices and that this will be attractive to hospitals because there is no significant requirement to close facilities during cleaning, change operating practices, purchase capital equipment or train or recruit staff.

Byotrol has agreed in principle to a trial with the Glasgow Royal Infirmary, a major NHS teaching hospital. The scope and timing of the trial are currently being finalised and the Directors expect work to commence in the second half of 2005. This will be designed to show the efficacy of Byotrol's products in a number of ward and post-surgical environments.

## **Sales and Marketing Strategy**

Initial sales of Byotrol's products have been made in a number of territories and sectors but have been limited in scale by the Company's strategy to date. With these sales demonstrating the commercial viability

of the product range, the Company has identified significant customer demand and is initially targeting the healthcare, food processing and industrial sectors. However, the Directors have identified wider applications for the technology and will seek to enter into joint venture and licensing arrangements as appropriate.

#### *Distribution partners*

Byotrol has arrangements in place with a number of distribution partners in specific markets and geographical areas. As part of the development strategy, the Directors intend to enter into agreements with additional distribution partners with established sales and marketing channels. Byotrol provides distributors with ready-to-use products or concentrate for dilution depending on their requirements and the market served.

#### *Joint ventures and licensing*

In markets where the Directors have identified an industrial partner who is well placed to bring a particular product to market, Byotrol will seek to enter into joint venture or licensing arrangements with that partner on a royalty basis rather than seeking to market its own products. For example, the Directors anticipate that revenues from royalties in the healthcare market will be the greatest from such licensing arrangements.

A key element of the Company's strategy is to develop Byotrol as an ingredient brand. Where third party products incorporating Byotrol's technology are distributed or marketed by partners, it is intended that arrangements will be put in place to ensure that Byotrol's ingredient branding is an integral part of the end-product.

### **Competition**

The Directors are aware of a number of other methods and technologies used in the control of micro-organisms. These range from simple washing with water to the use of complex antimicrobial drugs. The Directors believe that all of these methods and technologies have limitations when compared with Byotrol's products. Whilst not applying in all cases, these limitations include:

- A lack of residual antimicrobial effect
- Damage to the surfaces treated
- High associated capital costs
- Promotion of resistance
- Toxicity
- Lack of broad-based efficacy

The Directors believe that Byotrol has demonstrated that its products overcome all of the above limitations and believe the product is competitively placed in the market. The Directors believe these are the key criteria for customers and they are unaware of any other product which can match the overall performance of Byotrol's products on these criteria.

However, the Directors believe Byotrol does and will continue to face competition from three principle sources:

- Companies with 'unique' technology, an example of which would be Bioquell which has a device it claims is unique. In general, these competitors suffer from being providers of unknown or untested technology into a very conservative marketplace;
- Branded suppliers of commodity biocides such as Microban International, Ltd. These companies do not have unique technology but rely on the marketing of their brand to establish their profit base. They are highly vulnerable to low cost suppliers of identical technology; and
- Major multinational companies such as Diversey Lever plc and Ecolab Inc. These companies supply commodity anti-microbial products and cleaners. Whilst these are competitors, the Directors also see companies such as these as potential distribution, joint venture or licensing partners in markets that the Directors would not consider attempting to access directly.

### **Manufacturing**

The process by which Byotrol's products are manufactured is relatively simple. To date, all Byotrol's products have been manufactured either in the Company's facilities in Manchester or by HMG Paints Limited. Byotrol's products have been either shipped in concentrate form or packaged ready for use at the same facility. The Directors anticipate that the growth of the business will necessitate the establishment of

manufacturing capacity in the US and other countries where there are major customers. In addition, the Directors intend, where appropriate, to use sub contract manufacturing or joint ventures.

### **Current Trading and Prospects**

The Group has, to date, been loss making and details of the trading record are set out in Part III of this Document. The Directors have been encouraged by the market response to Byotrol's technology and its initial products. The Company has experienced interest from both large and small customers around the world. The Directors are aware of significant commercial opportunities in the three target markets.

The Group has received indications that, once EPA registration has been achieved for certain products, the Group will be able to commence sales to certain large US food processors. Testing is expected to commence shortly with certain UK suppliers which, if successful, will lead to sales to those companies.

In the US food industry, a large poultry production company has indicated its willingness to purchase Byotrol's products subject to EPA registration. Additionally in the US, a large hospital chain has expressed interest in using the Company's products and a large national distributor in the industrial sector has opened negotiations with the Company.

In the UK healthcare sector, initial scoping tests and discussions have taken place with the NHS. In addition, a speciality application in tissue preservation is in development and preliminary discussions have taken place with an international pharmaceutical company in connection with another potential product.

Within the industrial sector, a European distributor has signed an accord to distribute the Company's materials to the polymer and coatings industries and an international coatings manufacturer continues with a large scale project for the coated steel industry.

In terms of wider applications, a major US speciality coatings manufacturer has indicated that, subject to regulatory approval, it will use Byotrol's products as ingredients to develop its own products for the US building and wood care markets.

The Directors believe that, following the Placing, it will take between six and nine months to achieve EPA registration for the use of Byotrol's products as a disinfectant in healthcare, food processing and hygiene markets. The Group will then be able to complete the sales process with the relevant potential customers for these new products.

### **Directors**

#### **Wesley Devoto** OBE, aged 64 (Non-executive Chairman)

Wesley joined Georgia Life and Health Insurance Company in 1964 and served as President from 1969 to 1974. In 1979, he became President of Devoto and Company, Inc., a private international mergers and acquisition firm based in London and Atlanta which specialises in advising UK companies on company acquisitions and divestitures in the US. He is currently Chairman of ADCO Holdings, Inc., the US operating arm of ADCO GmbH of Dusseldorf, Germany. He has also served on the UK boards of Swifts of Scarborough Limited and First Olympian Securities Limited where he was Chairman. Wesley joined Byotrol LLC in January 2005.

#### **David McRobbie**, aged 54 (Chief Executive Officer)

David has spent over 14 years in the US with successful start-up ventures. Prior to joining Byotrol LLC in 2001, he established the US business of Trimite, a specialist powder coatings business, as President and chief executive officer of Trimite USA. Prior to moving to the US, David held senior positions with companies such as Trimite Limited, BASF AG, and Valentine Varnish & Lacquer Limited and trained as an industrial chemist with the Donald Macpherson Group and Holt Lloyd International. He holds a masters degree in chemical engineering from the University of Bath.

As Chief Executive Officer, David is responsible for the day to day operations of the Group with particular responsibility for marketing and customer relations in the US.

#### **Stephen Falder**, aged 44 (Business Development Director)

Prior to joining Byotrol LLC in 2001, Stephen was the business development director of his family's paint and coatings business, HMG Paints Limited. Stephen's experience includes several successful new business start-ups including Bradite Limited, Buccaneer International Limited and HMG America LLC. He is currently a non-executive director of HMG Paints Limited and HMG America LLC. He is one of the

inventors of Byotrol's patented technology and a founder of the business. He graduated in chemistry and biology from the University of London, Kings College.

As Business Development Director, Stephen is responsible for marketing and customer relations and has additional responsibility for product development.

**Dr Peter Dandalides MD, aged 51 (Director of Healthcare)**

Peter practised as a physician in the area of clinical, consultative infectious diseases for nine years, during which time he started and managed his own private practice, taught internal medicine and infectious diseases, and led the Infection Control Department and Hospital Epidemiology program at Spartanburg Regional Medical Center, Spartanburg, South Carolina. He has held senior management positions in hospital administration, graduate medical education, healthcare insurance and the healthcare services industry, culminating in his appointment as President and Chief Operating Officer of SHPS Healthcare Services, a division of SHPS, Inc. Peter holds degrees in microbiology and medicine from Ohio State University. He completed post graduate training in internal medicine at the University of Pittsburgh and infectious diseases/hospital epidemiology at the University of North Carolina.

Peter is responsible for developing the Company's business in the healthcare sector. He has advised Byotrol LLC since 2001 and joined on a full-time basis in 2004.

**Ian Mainman, aged 50 (Non-executive Director)**

After qualifying as a lawyer, Ian worked for two large Manchester law firms before setting up his own practice in the early 1990s. He specialises in commercial work for growing companies in the UK. He has assisted Byotrol through the early years of the business. He is a partner in Perkins Solicitors, Manchester.

**Senior Management**

**Andrew Burton FCCA, aged 42 (Chief Financial Officer)**

Andrew qualified as a Certified Accountant with Hacker Young in 1991. He joined HMG Paints Limited in 1996 where he acts as Finance Director and he acts in the same capacity for Bradite Limited. Andrew joined Byotrol in May 2005 as Chief Financial Officer and is responsible for the Group's financial affairs.

**Consultants**

In addition to the above Directors, the Company has brought together a group of consultants to assist the Company on various matters:

**Dr Jerome (Jerry) Vincent Bennett, Sr., PhD, CMA**

Jerry has worked with Byotrol LLC since 2001 and brings expertise in financial control and accountancy matters and a valuable network of industry contacts. His industry and government experience includes being director of information systems with Uniroyal Inc., financial controllership positions with Uniroyal Inc. and Riegel Paper Corporation, industrial engineer with DuPont and director of technology utilisation for South Carolina state government. He is professor of accounting information systems and former Dean of the School of Business Administration and Economics, University of South Carolina Spartanburg. He holds a bachelor's degree in engineering from Georgia Institute of Technology, a master in business administration degree from University of North Carolina and a PhD from University of South Carolina.

**David Rawden**

David is one of the inventors of Byotrol's patented technology. He has worked closely with Stephen Falder at HMG Paints Limited since the early 1980s as well as running his own businesses, a number of which exploited innovations in surface coatings and thin film technologies. As Managing Director of Tefcote International, he pioneered the UK and European launch of an advanced P.T.F.E waterborne system and as the special projects manager for HMG Paints Limited was involved in the development and refinement of a unique aviation and marine coating. He advises the Company on research and development matters with a focus on speciality applications of Byotrol's technology.

**Dr. Ralph Portier PhD (Adviser on Environmental Microbiology and Toxicology)**

Ralph has been instrumental in evaluative research that identified the unique and highly effective nature of Byotrol's materials. He has particular expertise in the protocols within microbiological testing that ensure appropriate rigour in the validation of any anti-microbial claims made. The Company particularly benefits



from Ralph's wide experience of evaluation and testing with respect to efficacy and safety. He is currently Distinguished Professor of Environmental Sciences at Louisiana State University.

Ralph is a published authority in the field of microbiology and has a PhD in Marine Sciences (Microbiology/ Toxicology). His field of specialisation and particular areas of interest are microbiology and microbial physiology of extreme marine environments, environmental toxicology of impacted coastal wetland microenvironments, remediation approaches for contaminated water and soils/sediments, risk assessment and risk-based remediation of xenobiotics in soils/sediments. His research has focused on alleviating the problems associated with industrial activity in coastal estuarine and riverine environments with particular emphasis on the role of biofilms.

**Prof. Curtis G. Gemmell PhD, FRC Path (Adviser on Public Sector Healthcare)**

Curtis is Professor of Bacterial Infection and Epidemiology in the Division of Immunology, Infection and Inflammation. In 1997 he became Director of the newly established Scottish Methicillin Resistant *Staphylococcus aureus* (MRSA) Reference Laboratory.

Curtis graduated from the University of Glasgow in 1963 and subsequently obtained his PhD in Bacteriology from the same institute in 1968. In 1976, he returned to the University as senior lecturer in medical microbiology and honorary consultant at the Royal Infirmary, Glasgow. In 1979/80 he spent a sabbatical leave year as Associate Professor in the Departments of Paediatric Infectious Diseases and Microbiology of the University of Minnesota. He became Reader in Bacteriology at Glasgow in 1990 and from 1994 to 1998 he served as head of the Department of Bacteriology within the Medical School.

Curtis's role is to provide the Group with advice and guidance on the requirements of the NHS, particularly on issues such as antibiotic resistant strains of bacteria, hospital acquired infection, and the epidemiology and control of infection in healthcare. In addition, the Directors believe his expertise in the processes of acceptance and approval of antimicrobials within the UK is very valuable to the Company.

**Management incentivisation and share options**

The Directors believe that the recruitment, motivation and retention of key employees is vital for the successful growth of the Group. The Directors consider that an important element in achieving these objectives in a competitive employee market place is to provide employees with a remuneration package which includes an element that is linked to the performance of the Group. The Directors believe that this is best achieved by the establishment of share incentive arrangements designed to provide continuing incentives to contribute to the Group's growth.

Accordingly, the Directors have established a Share Option Scheme and an Unapproved Share Option Scheme, details of which are set out in paragraph 10 of Part IV of this Document.

**Corporate Governance**

The Group intends, following Admission and so far as is practicable and appropriate for a public company of its size, to comply with the principles of the Combined Code on Corporate Governance published in July 2003.

The Company has established an Audit Committee composed of Wesley Devoto and Ian Mainman and chaired by Wesley Devoto. The Audit Committee will meet not less than twice each year and is responsible for making recommendations to the Board on the appointment of the auditors and the audit fee, for reviewing the conduct and control of the annual audit and for reviewing the operation of internal financial controls. It also has responsibility for the proper reporting of the financial performance of the Group and for reviewing financial statements prior to publication.

The Company has established a Remuneration Committee composed of Wesley Devoto and Ian Mainman and chaired by Ian Mainman. It will review the performance of the executive directors and set the scale and structure of their remuneration and the basis of their service agreements with due regard to the interests of shareholders. The Remuneration Committee will also determine the allocation of share options to employees. It is a rule of the Remuneration Committee that no Director shall participate in discussions or decisions concerning his own remuneration.

**Placing**

The Company has conditionally placed 13,043,478 Ordinary Shares at a price of 23p per share which will represent 37.4 per cent. of the enlarged issued share capital of the Company after the Placing. A total of £3.0

million has been conditionally raised in the Placing which will leave an amount of approximately £2.5 million after deducting the expenses of the Placing and Admission. The Placing is conditional upon Admission.

### **Reasons for Admission**

The Directors believe that Admission to trading on AIM will enhance the Company's profile and give it added credibility especially with existing and future partners. Admission will also enable the Company to hire and retain the high calibre employees needed to grow the Company's business further.

The proceeds of the Placing will be used to:

- fund additional regulatory and other approvals;
- augment the Company's intellectual property portfolio;
- increase the Company's sales and marketing infrastructure to enable it to service the growing number of distributors and partners;
- finance further product development; and
- provide the working capital necessary to service anticipated orders.

### **Lock-In Arrangements**

On Admission, the Directors and John Falder, Brian Falder and RO Holdings ehf will be interested in aggregate in 18,616,571 Ordinary Shares representing 53.4 per cent. of the issued share capital of the Company.

In accordance with the AIM Rules, each of the Directors and Connected Persons has undertaken, for himself and his associates, not to dispose of any interest in Ordinary Shares held by him or his associates for a period of twelve months following Admission, save in certain limited circumstances. Further details of these arrangements are set out in paragraph 14.1.5 of Part IV.

Each of John Falder, Brian Falder and RO Holdings ehf (each a "Restricted Shareholder") have undertaken not to dispose of any interest in Ordinary Shares held by them for a period of twelve months following Admission, save in certain limited circumstances. Further details of these arrangements are set out at paragraph 9.7 of Part IV.

The Directors and the Restricted Shareholders have also undertaken not to dispose of any interest in Ordinary Shares for a further period of twelve months except following consultation with the Company's nominated adviser and then only through the Company's broker.

### **Dividend Policy**

It is the Directors' intention to pay dividends when, in the view of the Directors, it is commercially prudent to do so and the Company has sufficient distributable reserves for that purpose.

### **CREST**

The Company's Articles of Association permit the transfer of shares in dematerialised form in CREST under the CREST Regulations and the Company has applied for its Ordinary Shares to be admitted to CREST at Admission. Accordingly, settlement of transactions in the Ordinary Shares following Admission may take place within the CREST system if relevant Shareholders so wish.

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

### **Dealing Arrangements**

Application has been made for the Ordinary Shares to be admitted to trading on AIM and it is anticipated that Admission will become effective and that dealings will commence on 6 July 2005. It is expected that the relevant Ordinary Shares will be delivered into CREST on 6 July 2005 and that share certificates for the Ordinary Shares to be held in certificated form will be despatched by 20 July 2005.

## **PART II**

### **RISK FACTORS**

Prospective investors should be aware that an investment in the Ordinary Shares may be subject to a number of risks. Prospective investors should consider carefully all of the information set out in this document and the risks attaching to an investment in the Company, including, in particular, the risks described below, before making any investment decision. The information below does not purport to be an exhaustive list. Shareholders and prospective investors should consider carefully whether an investment in the Ordinary Shares is suitable for them in light of the information in this document and their personal circumstances.

If any of the following risks relating to the Company were to materialise, the Company's business, financial condition, results or future operations could be materially adversely affected. In such cases, the market price of the Ordinary Shares could decline and an investor may lose part or all of his investment. Additional risks and uncertainties not presently known to the Directors, or which the Directors currently deem immaterial, may also have an adverse effect upon the Company.

#### **Early stage of operations**

Whilst the Company has made sales of its products, it is at an early stage of development. The increase in the Company's revenues is difficult to predict and there can be no guarantee that material increases in revenues will occur in the foreseeable future.

#### **Dependence on key personnel**

The success of the Company depends heavily on the expertise of the Directors and the recruitment of suitably skilled employees in the future. Whilst the Company has entered into contractual arrangements with the Directors and has adopted the Share Option Scheme and Unapproved Share Option Scheme, the retention of their services is not guaranteed. There can be no guarantee that the Company will be able to recruit sufficient suitably skilled employees to enable it to fulfil its growth plans.

#### **Dependence on patents and IP**

The Company is heavily dependent on its intellectual property and in particular its patents. No assurance can be given that any pending patent applications or any future patent applications will result in granted patents, that the scope of any copyright or patent protection will exclude competitors or provide competitive advantages to the Company, that any of the Company's patents will be held valid if challenged, or that third parties will not claim rights in or ownership of the copyright, patents and other proprietary rights held by the Company.

Further, there can be no assurance that others have not developed or will not develop similar products, duplicate any of the Company's products or design around any patents held by the Company. Others may hold or receive patents which contain claims having a scope that covers products developed by the Company (whether or not patents are issued to the Company).

The Company may rely on patents to protect its assets. These rights act only to prevent a competitor copying and not to prevent a competitor from independently developing products that perform the same functions. No assurance can be given that others will not independently develop or otherwise acquire substantially equivalent techniques or otherwise gain access to the Company's unpatented proprietary technology or disclose such technology or that the Company can ultimately protect meaningful rights to such unpatented technology.

#### **Regulatory approval in the USA**

In the USA, registration of certain of the Company's products with the EPA is a prerequisite of success in that market. The testing requirements and timing of these registrations is at the discretion of the EPA, and may not come as early as anticipated. Although potentially desirable in the future, FDA approval is not essential to the Company's success.

#### **Requirement for further funds**

The Company has adequate working capital for its present requirements. However, there may be situations where further funding is required. There can be no guarantee that further funds will be available to the Company should it need them.

**Competition**

The Company may face significant competition from organisations which have much greater capital resources than those available to the Company. There is no assurance that the Company will be able to compete successfully in such a marketplace.

**Marketability of Ordinary Shares**

The Ordinary Shares will be traded on AIM rather than the Official List. The AIM Rules are less demanding than those of the Official List and an investment 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. The market price of the Ordinary Shares may not reflect the underlying value of the Company's net assets or profitability.

The market for shares in smaller public companies is less liquid than for larger public companies. Consequently, the Company's share price may be subject to greater fluctuation and it may be more difficult for an investor to sell his or her Ordinary Shares and he or she may receive less than the original amount invested.

Accordingly, the Ordinary Shares may not be suitable as a short-term investment.

**PART III**  
**ACCOUNTANTS' REPORTS**

**Section A: The Company**

The following is the full text of a report on Byotrol plc from Baker Tilly, the Reporting Accountants, to the Directors of Byotrol plc, Matrix-Securities Limited and Merchant Capital plc.



**BAKER TILLY**

Brazenose House  
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Manchester  
M2 5BL

The Directors  
Byotrol plc  
Riverside Works  
Collyhurst Road  
Manchester  
M40 7RU

The Directors  
Matrix-Securities Limited  
One Jermyn Street  
London  
SW1Y 4UH

The Directors  
Merchant Capital plc  
Aldermay House  
10-15 Queen Street  
London  
EC4N 1TX

30 June 2005

Dear Sirs

**Byotrol plc (the “Company”)**

We report in connection with the Company’s proposed placing of ordinary shares (the “Placing”) and admission of the ordinary shares to trading on AIM, a market operated by the London Stock Exchange. This report has been prepared for inclusion in the admission document dated 30 June 2005 (the “Document”).

The Company was incorporated as Hallco 1146 Limited on 4 February 2005 with an authorised share capital of £1,000 divided into 1,000 Ordinary Shares of £1 each, two of which shares were issued, fully paid, on incorporation.

On 16 May 2005:

- each Ordinary Share of £1 each was sub-divided into 400 shares of 0.25 pence each;
- the authorised share capital was increased from £1,000 to £88,625 by the creation of an additional 35,050,000 shares;
- 16,000,000 Ordinary Shares of 0.25 pence each were issued for cash. In addition, 3,999,200 Ordinary Shares of 0.25 pence each were issued as consideration for the rights to certain intellectual property.

On 13 April 2005 the Company changed its name to Byotrol Limited and, on 17 May 2005, re-registered as a public limited company.

The Company has not traded, prepared any financial statements for presentation to members, incurred neither profit nor loss and has neither declared nor paid dividends or made any other distributions since the date of incorporation. There have been no transactions other than the allotments of shares described above

and in 5 below and the execution of the material contracts referred to herein and in paragraph 9 of Part IV of the Document. Accordingly, no profit and loss account information is presented in this report.

### **Basis of preparation**

The financial information set out below has been extracted from financial records of the Company for the period from 4 February 2005 to 17 May 2005, no adjustments being considered necessary. No audited financial statements have been prepared for submission to members in respect of any period since incorporation.

### **Responsibility**

The financial records are the responsibility of the directors of the Company (the “Directors”). The Directors are also responsible for the contents of the Document in which this report is included.

It is our responsibility to compile the financial information set out below from the Company’s financial records and to make a report in accordance with paragraph 45 of Schedule 1 to the Public Offers of Securities Regulations 1995. Our work has been undertaken so that we might state those matters we are required to state in our report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone for any other purpose for our work, for this report or for the opinion we have formed.

### **Basis of Opinion**

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board. Our work included an assessment of evidence relevant to the amount of and disclosures in the financial information. It also included an assessment of significant estimates and judgments made by those responsible for the preparation of the financial statements and whether the accounting policies are appropriate to the Company’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 set out below, gives, for the purposes of the Document, a true and fair view of the state of affairs of the Company as at 17 May 2005.

### **Balance sheet**

		<i>As at</i>
		<i>17 May</i>
		<i>2005</i>
	<i>Notes</i>	<i>£</i>
<b>Fixed assets</b>		
Intangible fixed assets	2	10,000
<b>Current assets</b>		
Cash in hand		40,000
		<u>50,000</u>
<b>Capital and reserves</b>		
Called up share capital	3	<u>50,000</u>

## Notes to the Financial Information

### 1. Accounting policies

The principal accounting policies, which have been consistently applied, are as follows:

#### *Basis of accounting*

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

#### *Intangible fixed assets*

Intangible fixed assets are stated at cost, and amortised over their estimated useful life of 20 years.

### 2. Intangible fixed assets

	£
<i>Intellectual property</i>	
Addition in period and as at 17 May 2005	10,000

### 3. Share capital and reserves

	<i>As at</i>
	<i>17 May</i>
	<i>2005</i>
	£
<i>Authorised</i>	
35,450,000 Ordinary Shares of 0.25p each	88,625
<i>Issued and fully paid</i>	
20,000,000 Ordinary Shares of 0.25p each	50,000

### 4. Transactions with Directors

On 16 May 2005 the Company issued 3,999,200 fully paid Ordinary Shares of 0.25 pence each to Stephen Falder in consideration of the transfer to the Company of the intellectual property surrounding the Company's technology, valued at £10,000. The remaining £2 of consideration was settled by the issue to S Falder of the subscriber shares.

### 5. Post balance sheet events

On 18 May 2005 the Company issued 200,000 Ordinary Shares of 0.25 pence each as consideration for the acquisition of all the units in Byotrol LLC.

On 18 May 2005 the Company issued 1,629,371 Ordinary Shares of 0.25 pence each in settlement of the following amounts due by Byotrol LLC:

	£	<i>No. of</i> <i>shares</i> <i>issued</i>
Owed to Stephen Falder	236,327	787,757
Owed to David McRobbie	252,484	841,614
	<u>488,811</u>	<u>1,629,371</u>

On 29 June 2005 the authorised share capital of the Company was increased from £88,625 to £125,000 by the creation of an additional 14,550,000 Ordinary Shares.

On 30 June 2005 the Company issued warrants to subscribe for up to 4,365,875 Ordinary Shares to the members of the Company on such date on the basis of 1 warrant for every 5 Ordinary Shares held on such date. The warrants are exercisable at 23p per Ordinary Share at any time from the date that is six months from the date of Admission until the earlier of three years from the date of Admission or one month following the publication of the annual results of the Company for the period ending 30 June 2008.

**Consent**

We consent to the inclusion of this report in the Document and accept responsibility for this report for the purposes of paragraph 45 of Schedule 1 to the Public Offers of Securities Regulations 1995.

**Baker Tilly**

*Chartered Accountants*

*Registered Auditor*

Manchester



## Section B: Byotrol LLC

The following is the full text of a report on Byotrol LLC from Baker Tilly, the Reporting Accountants, to the Directors of Byotrol plc, Matrix-Securities Limited and Merchant Capital plc.



**BAKER TILLY**

Brazennose House  
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M2 5BL

The Directors  
Byotrol plc  
Riverside Works  
Collyhurst Road  
Manchester  
M40 7RU

The Directors  
Matrix-Securities Limited  
One Jermyn Street  
London  
SW1Y 4UH

The Directors  
Merchant Capital plc  
Aldermay House  
10-15 Queen Street  
London  
EC4N 1TX

30 June 2005

Dear Sirs

### **Byotrol LLC (“BL”)**

We report in connection with the proposed placing of Byotrol plc’s (“Byotrol” or “the Company”) ordinary shares (“the Placing”) and admission to trading on AIM, a market operated by the London Stock Exchange Plc. This report has been prepared for inclusion in the Admission Document dated 30 June 2005 (the “Document”).

### **Basis of preparation**

The financial information set out below has been extracted from the financial records of BL for the three years ended 31 December 2004. No audited financial statements have been prepared for BL in respect of these or any subsequent periods.

### **Responsibility**

The financial records of BL, which underlie this report, are the responsibility of the directors of BL. The Directors are responsible for the contents of the Document in which this report is included.

It is our responsibility to compile the financial information set out below from BL’s financial records and to make a report in accordance with paragraph 45 of Schedule 1 to the Public Offers of Securities Regulations 1995. Our work has been undertaken so that we might state those matters we are required to state in our report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone for any other purpose for our work, for this report or for the opinion we have formed.

### **Basis of Opinion**

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board. Our work included an assessment of evidence relevant to the amount of and disclosures in the financial information.

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 set out below gives, for the purposes of the Document, a true and fair view of the losses, cash flows and recognised gains and losses of BL for the three years ended 31 December 2004 and of the state of affairs of BL for each of the years then ended.

## Profit and loss accounts

		<i>Year ended</i> <i>31 December</i> 2002	<i>Year ended</i> <i>31 December</i> 2003	<i>Year ended</i> <i>31 December</i> 2004
	<i>Note</i>	£	£	£
<b>Turnover</b>	2	249,978	28,311	52,226
Cost of sales		(91,497)	(5,243)	(10,478)
<b>Gross profit</b>		158,481	23,068	41,748
Administrative expenses		(464,383)	(417,310)	(417,878)
Exceptional cost	3	—	—	(159,348)
Other operating income	5	—	—	5,481
<b>Operating loss</b>	3	(305,902)	(394,242)	(529,997)
Interest payable and similar charges	6	(2,049)	(2,041)	(5,266)
<b>Loss on ordinary activities before taxation</b>		(307,951)	(396,283)	(535,263)
Taxation on loss on ordinary activities	7	—	—	—
<b>Retained loss for the year</b>	15	<u>(307,951)</u>	<u>(396,283)</u>	<u>(535,263)</u>

Turnover and operating loss all derive from continuing operations.

## Statement of total recognised gains and losses

	<i>Year ended</i> <i>31 December</i> 2002	<i>Year ended</i> <i>31 December</i> 2003	<i>Year ended</i> <i>31 December</i> 2004
	£	£	£
Loss for the financial year	(307,951)	(396,283)	(535,263)
Exchange differences arising on the retranslation of amounts denominated in foreign currency	(85,197)	28,633	26,416
Total recognised gains and losses relating to the year	<u>(393,148)</u>	<u>(367,650)</u>	<u>(508,847)</u>

**Balance sheets**

		<i>As at</i>	<i>As at</i>	<i>As at</i>
		<i>31 December</i>	<i>31 December</i>	<i>31 December</i>
		<i>2002</i>	<i>2003</i>	<i>2004</i>
	<i>Note</i>	<i>£</i>	<i>£</i>	<i>£</i>
<b>Fixed assets</b>				
Tangible assets	8	2,420	3,890	2,171
Investments	9	5,000	5,000	5,000
		<u>7,420</u>	<u>8,890</u>	<u>7,171</u>
<b>Current assets</b>				
Stock	10	2,479	1,555	35,518
Debtors	11	455,262	177,927	15,753
Cash at bank		4,059	4,945	5,898
		<u>461,800</u>	<u>184,427</u>	<u>57,169</u>
<b>Creditors: amounts falling due within one year</b>	12	<u>(104,942)</u>	<u>(125,084)</u>	<u>(158,049)</u>
<b>Net current assets/(liabilities)</b>		<u>356,858</u>	<u>59,343</u>	<u>(100,880)</u>
<b>Total assets less current liabilities</b>		<u>364,278</u>	<u>68,233</u>	<u>(93,709)</u>
<b>Creditors: amounts falling due after more than one year</b>	13	<u>(148,144)</u>	<u>(382,533)</u>	<u>(631,987)</u>
<b>Net assets/(liabilities)</b>		<u>216,134</u>	<u>(314,300)</u>	<u>(725,696)</u>
<b>Capital and reserves</b>				
Unit holders' capital accounts	14	1,021,446	858,662	956,113
Profit and loss account	15	(805,312)	(1,172,962)	(1,681,809)
<b>Unit holders' funds</b>	15	<u>216,134</u>	<u>(314,300)</u>	<u>(725,696)</u>

## Cash flow statements

		<i>Year ended</i> <i>31 December</i> <i>2002</i>	<i>Year ended</i> <i>31 December</i> <i>2003</i>	<i>Year ended</i> <i>31 December</i> <i>2004</i>
	<i>Note</i>	<i>£</i>	<i>£</i>	<i>£</i>
<b>Net cash outflow from operating activities</b>	16 (a)	<u>(397,053)</u>	<u>(393,042)</u>	<u>(344,033)</u>
<b>Returns on investments and servicing of finance</b>				
Interest paid		<u>(2,049)</u>	<u>(2,041)</u>	<u>(5,266)</u>
<b>Net cash outflow from returns on investment and servicing of finance</b>		(2,049)	(2,041)	(5,266)
<b>Capital expenditure</b>				
Purchase of tangible assets		<u>—</u>	<u>(6,451)</u>	<u>—</u>
<b>Net cash outflow from capital expenditure</b>		—	(6,451)	—
<b>Acquisitions and disposals</b>				
Purchase of investments		<u>(5,000)</u>	<u>—</u>	<u>(26,835)</u>
<b>Net cash outflow from acquisitions and disposals</b>		(5,000)	—	(26,835)
<b>Net cash outflow before financing</b>		<u>(404,102)</u>	<u>(401,534)</u>	<u>(376,134)</u>
<b>Financing</b>				
Cash received for units		81,494	96,170	97,451
Increase in directors' loans		111,491	174,001	158,988
Increase in unit holders' loans		621	18,484	688
Increase in HMG loan		36,032	27,895	103,786
Effect of foreign exchange differences		<u>(85,197)</u>	<u>28,633</u>	<u>26,416</u>
<b>Net cash inflow from financing</b>		<u>144,441</u>	<u>345,183</u>	<u>387,329</u>
<b>(Decrease)/increase in cash</b>	16 (b) & (c)	<u><u>(259,661)</u></u>	<u><u>(56,351)</u></u>	<u><u>11,195</u></u>

## Notes to the financial information

### 1. Accounting policies

The principal accounting policies, which have been consistently applied in BL's financial information throughout the period under review, are as follows:

#### *Basis of accounting*

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

#### *Turnover*

Turnover represents the total invoice value, excluding Value Added Tax, of goods sold and services rendered during the year.

#### *Tangible fixed assets*

Tangible fixed assets are stated at historical cost. Depreciation is provided on all tangible fixed assets at rates calculated to write each asset down to its estimated residual value evenly over its expected useful life, as follows:

Office equipment, plant and equipment – 20% per annum.

#### *Investments*

Fixed asset investments are stated at cost. Provision is made for any impairment in the value of fixed asset investments.

#### *Stocks*

Stocks are valued at the lower of cost and net realisable value on bases consistent with previous years. Cost represents expenditure incurred in the ordinary course of business to bring stock to its present condition and location and includes appropriate overheads.

#### *Foreign currencies*

Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Capital accounts are translated using the historic exchange rate as at the date of issue of capital units. Exchange differences arising on trading transactions are taken into the profit and loss account for the year. Exchange differences arising on retranslation of capital balances are shown as a movement on reserves.

#### *Operating lease commitments*

Rentals paid under operating leases are charged to the profit and loss account as incurred.

#### *Going concern*

BL had net liabilities of £725,696 at 31 December 2004 and incurred a loss of £535,263 in the year then ended. The going concern basis has been adopted in preparing this financial information on the basis that ongoing support will be made available to BL in the form of further loans from HMG Paints Limited, and the conversion of directors' loans to equity in Byotrol. Irrevocable undertakings have been received by the directors of BL in this respect.

In addition, the Directors of Byotrol are pursuing a fund raising exercise, seeking to raise new equity pursuant to the Placing, which they expect to provide sufficient new finance to enable Byotrol to provide funds to BL to enable it to continue to meet its debts as they fall due.

## 2. Turnover and gross profit

BL's turnover and gross profit is derived from its principal activity as a manufacturer and distributor of a range of antimicrobial products throughout the USA, Europe and South Africa. The geographical analysis of turnover by destination is as follows:

	<i>Year ended 31 December 2002 £</i>	<i>Year ended 31 December 2003 £</i>	<i>Year ended 31 December 2004 £</i>
North America	2,397	7,210	15,316
Europe (including Iceland)	98,628	21,101	36,910
Africa	148,953	—	—
	<u>249,978</u>	<u>28,311</u>	<u>52,226</u>

## 3. Operating loss

Operating loss is stated after charging:

	<i>Year ended 31 December 2002 £</i>	<i>Year ended 31 December 2003 £</i>	<i>Year ended 31 December 2004 £</i>
Depreciation of owned fixed assets	1,734	5,185	1,516
Lease rentals	7,126	9,114	6,615
Exceptional costs:			
Bad debt	—	—	132,513
Investments written off	—	—	26,835
	<u>          </u>	<u>          </u>	<u>          </u>

## 4. Employees

The average weekly number of persons (including directors) employed by the company was:

	<i>Year ended 31 December 2002 No.</i>	<i>Year ended 31 December 2003 No.</i>	<i>Year ended 31 December 2004 No.</i>
	<u>3</u>	<u>3</u>	<u>3</u>

  

	<i>Year ended 31 December 2002 £</i>	<i>Year ended 31 December 2003 £</i>	<i>Year ended 31 December 2004 £</i>
Staff costs for the above employees and directors:			
Wages and salaries	225,798	209,717	188,099
Social security costs	4,033	1,602	1,511
	<u>229,831</u>	<u>211,319</u>	<u>189,610</u>

## Directors' remuneration

	<i>Year ended 31 December 2002 £</i>	<i>Year ended 31 December 2003 £</i>	<i>Year ended 31 December 2004 £</i>
Remuneration for management services	<u>200,173</u>	<u>183,744</u>	<u>163,728</u>
Details of highest paid director's emoluments			
Emoluments	<u>105,211</u>	<u>96,576</u>	<u>86,056</u>

## 5. Other operating income

	<i>Year ended 31 December 2002 £</i>	<i>Year ended 31 December 2003 £</i>	<i>Year ended 31 December 2004 £</i>
Expired option	—	—	5,481

## 6. Interest payable and similar charges

	<i>Year ended 31 December 2002 £</i>	<i>Year ended 31 December 2003 £</i>	<i>Year ended 31 December 2004 £</i>
Interest on overdraft and bank loans repayable within five years	2,049	2,041	5,266

## 7. Taxation

BL is a US registered LLC, not subject to UK corporation tax. The results of the LLC for tax purposes are allocated to the unit holders in proportion to their ownership of BL and added or deducted from other US taxable income of the unit holders. No liability to US or UK tax on income has arisen in the three years to 31 December 2004, and it is not, therefore, meaningful to provide a reconciliation of the tax charge. Accordingly, there are no tax losses to carry forward available to BL.

## 8. Tangible fixed assets

	<i>Office Equipment £</i>	<i>Plant and Equipment £</i>	<i>Total £</i>
<b>Cost</b>			
At 1 January 2002	5,043	—	5,043
Additions	—	—	—
At 31 December 2002	5,043	—	5,043
Additions	—	6,451	6,451
Exchange rate difference	(494)	—	(494)
At 31 December 2003	4,549	6,451	11,000
Exchange rate difference	(320)	(455)	(775)
At 31 December 2004	4,229	5,996	10,225
<b>Depreciation</b>			
At 1 January 2002	889	—	889
Charge for the year	1,734	—	1,734
At 31 December 2002	2,623	—	2,623
Charge for the year	955	4,230	5,185
Exchange rate difference	(338)	(360)	(698)
At 31 December 2003	3,240	3,870	7,110
Charge for the year	511	1,005	1,516
Exchange rate difference	(254)	(318)	(572)
At 31 December 2004	3,497	4,557	8,054
<b>Net book value</b>			
As at 31 December 2002	2,420	—	2,420
As at 31 December 2003	1,309	2,581	3,890
As at 31 December 2004	732	1,439	2,171



## 9. Investments

	<i>Unlisted Investments £</i>
<b>Cost</b>	
At 1 January 2002	—
Acquisitions	5,000
As at 31 December 2002	5,000
Acquisitions	—
As at 31 December 2003	5,000
Acquisitions	26,835
Provision in year	(26,835)
As at December 2004	<u>5,000</u>

<i>Name of Company</i>	<i>Proportion of issued shares held</i>	<i>Activity</i>	<i>Country of principal operation and incorporation</i>
DIS ehf	10%	Distributor of anti-microbial products, primarily in the fisheries industry	Iceland
Abatement Byotrol Limited	13%	Distributor of anti-microbial products	England and Wales

## 10. Stocks

	<i>As at 31 December 2002 £</i>	<i>As at 31 December 2003 £</i>	<i>As at 31 December 2004 £</i>
Raw materials	—	—	9,245
Finished goods and goods for resale	2,479	1,555	26,273
	<u>2,479</u>	<u>1,555</u>	<u>35,518</u>

## 11. Debtors

	<i>As at 31 December 2002 £</i>	<i>As at 31 December 2003 £</i>	<i>As at 31 December 2004 £</i>
Trade debtors	191,588	176,066	14,346
Capital units debtor	258,953	—	—
Other debtors	4,372	1,520	1,062
Prepayments	349	341	345
	<u>455,262</u>	<u>177,927</u>	<u>15,753</u>

## 12. Creditors: amounts falling due within one year

	<i>As at 31 December 2002 £</i>	<i>As at 31 December 2003 £</i>	<i>As at 31 December 2004 £</i>
Bank overdraft	—	57,237	46,995
Trade creditors	81,611	64,160	78,315
Other creditors	39	3,687	6,696
Director's loan	15,530	—	—
Accruals	7,762	—	26,043
	<u>104,942</u>	<u>125,084</u>	<u>158,049</u>

### 13. Creditors: amounts falling due after more than one year

	<i>As at</i> 31 December 2002 £	<i>As at</i> 31 December 2003 £	<i>As at</i> 31 December 2004 £
Directors' loans	111,491	285,493	444,481
HMG loan	36,032	63,927	167,713
Unit holders' loans	621	19,105	19,793
Other creditors	—	14,008	—
	<u>148,144</u>	<u>382,533</u>	<u>631,987</u>

All loans are unsecured, carry no right to interest and have no fixed repayment date.

### 14. Capital accounts

	<i>As at</i> 31 December 2002 Number	<i>As at</i> 31 December 2003 Number	<i>As at</i> 31 December 2004 Number
<b>Total units issued</b>			
Units in BL LLC	<u>9,900,000</u>	<u>9,900,000</u>	<u>9,900,000</u>
	£	£	£
<b>Amounts paid on issued units</b>			
Units in BL LLC	<u>1,021,446</u>	<u>858,662</u>	<u>956,113</u>

Under USA Limited Liability rules, the units do not have a nominal financial value.

R O Holdings ehf, Iceland, subscribed \$1.5 million in 2001 for 15% of BL. Of this, \$1.261 million was paid, with the remaining balance cancelled in the year ended 31 December 2003. Accordingly, the investor's unit holding was reduced.

### 15. Reconciliation of unit holders' funds and movements on reserves

	<i>Capital</i> <i>accounts</i> £	<i>Profit</i> <i>and loss</i> <i>account</i> £	<i>Total unit</i> <i>holders'</i> <i>funds</i> £
At 1 January 2002	1,021,446	(412,164)	609,282
Loss for the year	—	(307,951)	(307,951)
Exchange differences	—	(85,197)	(85,197)
At 31 December 2002	<u>1,021,446</u>	<u>(805,312)</u>	<u>216,134</u>
Loss for the year	—	(396,283)	(396,283)
Exchange differences	—	28,633	28,633
Reduction in unit capital	(162,784)	—	(162,784)
At 31 December 2003	<u>858,662</u>	<u>(1,172,962)</u>	<u>(314,300)</u>
Loss for the year	—	(535,263)	(535,263)
Exchange differences	—	24,416	26,416
Increase in unit capital	97,451	—	97,451
At 31 December 2004	<u>956,113</u>	<u>(1,681,809)</u>	<u>(725,696)</u>

## 16. Cash flows

### (a) Reconciliation of operating loss to operating cash flows

	<i>Year ended 31 December 2002</i>	<i>Year ended 31 December 2003</i>	<i>Year ended 31 December 2004</i>
	<i>£</i>	<i>£</i>	<i>£</i>
Operating loss	(305,902)	(394,242)	(529,997)
Depreciation	1,734	5,185	1,516
Decrease/(increase) in stocks	826	924	(33,963)
(Increase)/decrease in debtors	(164,915)	18,382	162,174
Increase/(decrease) in creditors	71,204	(23,291)	29,402
Provisions against investment	—	—	26,835
Net cash outflow from operating activities	<u>(397,053)</u>	<u>(393,042)</u>	<u>(344,033)</u>

### (b) Reconciliation of net cash flow to movement in net debt

	<i>Year ended 31 December 2002</i>	<i>Year ended 31 December 2003</i>	<i>Year ended 31 December 2004</i>
	<i>£</i>	<i>£</i>	<i>£</i>
(Decrease)/increase in cash in year	(259,661)	886	953
(Increase)/decrease in overdraft in year	—	(57,237)	10,242
Increase in debt	(148,144)	(220,381)	(263,462)
Movement in debt during year	<u>(407,805)</u>	<u>(276,732)</u>	<u>(252,267)</u>
Opening net funds/(debt)	263,720	(144,085)	(420,817)
Closing net debt	<u>(144,085)</u>	<u>(420,817)</u>	<u>(673,084)</u>

(c) Analysis of net debt

	Opening Balance £	Cashflows £	Other Changes £	Closing Balance £
<b>Net cash at 1 January 2002</b>				
Cash at bank and in hand	263,720	(259,661)	—	4,059
Bank overdraft	—	—	—	—
	<u>263,720</u>	<u>(259,661)</u>	<u>—</u>	<u>4,059</u>
<b>Debt:</b>				
Directors' loans	—	(111,491)	—	(111,491)
Unit holders' loans	—	(621)	—	(621)
HMG loans	—	(36,032)	—	(36,032)
	<u>—</u>	<u>(148,144)</u>	<u>—</u>	<u>(148,144)</u>
Net funds/(debt) at 31 December 2002	<u>263,720</u>	<u>(407,805)</u>	<u>—</u>	<u>(144,085)</u>
<b>Net cash at 1 January 2003</b>				
Cash at bank and in hand	4,059	886	—	4,945
Bank overdraft	—	(57,237)	—	(57,237)
	<u>4,059</u>	<u>(56,351)</u>	<u>—</u>	<u>(52,292)</u>
<b>Debt:</b>				
Directors' loans	(111,491)	(174,002)	—	(285,493)
Unit holders' loans	(621)	(18,484)	—	(19,105)
HMG loans	(36,032)	(27,895)	—	(63,927)
	<u>(148,144)</u>	<u>(220,381)</u>	<u>—</u>	<u>(368,525)</u>
Net debt at 31 December 2003	<u>(144,085)</u>	<u>(276,732)</u>	<u>—</u>	<u>(420,817)</u>
<b>Net cash at 1 January 2004</b>				
Cash at bank and in hand	4,945	953	—	5,898
Bank overdraft	(57,237)	10,242	—	(46,995)
	<u>(52,292)</u>	<u>11,195</u>	<u>—</u>	<u>(41,097)</u>
<b>Debt:</b>				
Directors' loans	(285,493)	(158,988)	—	(444,481)
Unit holders' loans	(19,105)	(688)	—	(19,793)
HMG loans	(63,927)	(103,786)	—	(167,713)
	<u>(368,525)</u>	<u>(263,462)</u>	<u>—</u>	<u>(631,987)</u>
Net debt at 31 December 2004	<u>(420,817)</u>	<u>(252,267)</u>	<u>—</u>	<u>(673,084)</u>

## 17. Capital commitments

There were no capital commitments at the end of the financial year (2003: £nil, 2002: £nil).

**18. Commitments under operating leases**

	<i>As at</i> <i>31 December</i> <i>2002</i> £	<i>As at</i> <i>31 December</i> <i>2003</i> £	<i>As at</i> <i>31 December</i> <i>2004</i> £
Land and buildings			
Operating leases which expire:			
Within one year	<u>776</u>	<u>5,717</u>	<u>5,313</u>
	<u><u>776</u></u>	<u><u>5,717</u></u>	<u><u>5,717</u></u>
Other			
Operating leases which expire:			
Within one year	<u>4,770</u>	<u>1,076</u>	<u>—</u>
In the second to fifth	<u>1,193</u>	<u>—</u>	<u>—</u>
	<u><u>5,963</u></u>	<u><u>1,076</u></u>	<u><u>—</u></u>

**19. Transactions with directors of BL**

	<i>As at</i> <i>31 December</i> <i>2002</i> £	<i>As at</i> <i>31 December</i> <i>2003</i> £	<i>As at</i> <i>31 December</i> <i>2004</i> £
Balance due to directors	<u>127,021</u>	<u>285,493</u>	<u>444,481</u>
Maximum balance in year	<u><u>127,021</u></u>	<u><u>285,493</u></u>	<u><u>444,481</u></u>

The above relates primarily to consulting fees owed to two directors.

## 20. Related party disclosures

	<i>Year ended</i> <i>31 December</i> <i>2002</i> <i>£</i>	<i>Year ended</i> <i>31 December</i> <i>2003</i> <i>£</i>	<i>Year ended</i> <i>31 December</i> <i>2004</i> <i>£</i>
Sales to DIS ehf	42,305	—	18,884
Sales to HMG Paints Limited	266	—	—
Sales to HMG Coatings (South) Limited	420	—	—
	<u>42,991</u>	<u>—</u>	<u>18,884</u>
Recharges from HMG Paints Limited	14,956	5,512	13,054
	<u>14,956</u>	<u>5,512</u>	<u>13,054</u>
Loans from HMG Paints Limited	36,032	27,895	103,786
Loans from directors	127,021	158,471	158,988
Loans from unit holders	621	18,484	688
	<u>163,674</u>	<u>204,850</u>	<u>263,462</u>
	<i>As at</i> <i>31 December</i> <i>2002</i> <i>£</i>	<i>As at</i> <i>31 December</i> <i>2003</i> <i>£</i>	<i>As at</i> <i>31 December</i> <i>2004</i> <i>£</i>
<b>Balance outstanding at year end</b>			
DIS ehf	41,043	37,033	14
HMG Paints Limited	(50,931)	(82,685)	(176,101)
HMG Coatings (South) Limited	420	420	420
HMG America LLC	(528)	(2,382)	—
Royalties	(23,293)	—	(26,043)
Directors' loans	(127,021)	(285,493)	(444,481)
Unit holders' loans	(621)	(19,105)	(19,793)
	<u>(160,931)</u>	<u>(352,212)</u>	<u>(665,984)</u>
<b>Year end balances included within</b>			
Trade debtors	41,729	37,719	700
Creditors due within one year	(15,530)	—	—
Trade creditors and accruals	(38,986)	(21,406)	(34,696)
Long term creditors	(148,144)	(368,525)	(631,988)
	<u>(160,931)</u>	<u>(352,212)</u>	<u>(665,984)</u>

During the year ended 31 December 2004, the balance due from DIS ehf was exchanged for additional shares in DIS ehf. BL now holds 10 per cent. of the equity in DIS ehf. Full provision has been made against the value of this additional investment.

## 21. Post balance sheet events

On 30 March 2005 BL issued 100,000 units for total cash of £52,818 payable by five equal instalments from April 2005 to August 2005.

On 10 May 2005 BL received a further £26,542 from a unitholder in respect of 50,000 units already issued.

On 16 May 2005 S Falder acquired the intellectual property rights to the technology from BL by way of the assumption and payment of BL's liability to D Rawden of £26,043 and by permanently waiving the amount due to S Falder of £26,043.

On 18 May 2005 all of BL's units were acquired by Byotrol plc in exchange for the issue of 200,000 Ordinary Shares of 0.25 pence each in Byotrol plc.

On 18 May 2005 amounts due to two of the directors of BL, including amounts accrued after the balance sheet date, were settled by the issue of Ordinary Shares of 0.25 pence each in Byotrol plc, as follows:

	£	<i>No. of shares issued</i>
Owed to Stephen Falder	236,327	787,757
Owed to David McRobbie	252,484	841,614
	<u>488,811</u>	<u>1,629,371</u>

**22. Nature of financial information**

The financial information presented above in respect of the three years ended 31 December 2004 does not constitute statutory accounts for each of the years. Accounts for each of the three years ended 31 December 2004 have been prepared under UK GAAP and audited by Baker Tilly.

**23. Ultimate parent undertaking**

The parent undertaking at the balance sheet dates is HMG America LLC, a company registered in the United States of America.

The ultimate controlling party at the balance sheet dates is H Marcel Guest Limited by virtue of its controlling interest in HMG America LLC. The majority shareholder in H Marcel Guest Limited is Mr B Falder.

**24. Consent**

We consent to the inclusion of this report in the Document dated 30 June 2005 and accept responsibility for this report for the purposes of paragraphs 45 of Schedule 1 to the Public Offers of Securities Regulations 1995.

Yours faithfully

**Baker Tilly**  
*Chartered Accountants*  
*Registered Auditor*  
 Manchester

### Section C: Unaudited pro forma statement of net assets of the Group

Set out below is an unaudited pro forma statement of net assets of the Group which has been prepared, on the basis of the notes set out below, to illustrate the effects of the acquisition of Byotrol LLC by the Company, the capitalisation of directors' long term loans to Byotrol LLC, the acquisition of the licence agreement from Byotrol LLC and the effect of the Placing on the net assets of the Group had all these events occurred on 17 May 2005. The unaudited pro forma statement has been prepared for illustrative purposes only and, because of its nature, may not be a true picture of the financial position of the Group following the placing.

	<i>Net assets of the Company 17 May 2005 (£)</i>	<i>Net assets of Byotrol LLC 31 December 2004 (£)</i>	<i>Other adjustments (£)</i>	<i>Pro forma Total (£)</i>
<b>Fixed assets</b>				
Intangible assets	10,000	—	—	10,000
Tangible assets	—	2,171	—	2,171
Investments	—	5,000	—	5,000
	<u>10,000</u>	<u>7,171</u>	<u>—</u>	<u>17,171</u>
<b>Current assets</b>				
Stocks	—	35,518	—	35,518
Debtors	—	15,753	—	15,753
Cash	40,000	5,898	2,525,000	2,570,898
	<u>40,000</u>	<u>57,169</u>	<u>2,525,000</u>	<u>2,622,169</u>
<b>Creditors: amounts falling due within on year</b>	<u>—</u>	<u>(158,049)</u>	<u>26,043</u>	<u>(132,006)</u>
<b>Net current assets/(liabilities)</b>	<u>40,000</u>	<u>(100,880)</u>	<u>2,551,043</u>	<u>2,490,163</u>
<b>Total assets less current liabilities</b>	<u>50,000</u>	<u>(93,709)</u>	<u>2,551,043</u>	<u>2,507,334</u>
<b>Creditors: amounts falling due after more than one year</b>	<u>—</u>	<u>(631,987)</u>	<u>444,481</u>	<u>(187,506)</u>
<b>Net assets/(liabilities)</b>	<u><u>50,000</u></u>	<u><u>(725,696)</u></u>	<u><u>2,995,524</u></u>	<u><u>2,319,828</u></u>

#### Notes to the pro forma statement of net assets:

- The issue by the Company of 200,000 shares at a price of 20p per share as consideration for the acquisition of the unitholders' interest in Byotrol LLC has been accounted for using merger accounting, and no goodwill or fair value adjustments are applicable.
- The net assets of the Company and Byotrol LLC have been extracted without material adjustment from the Accountants' Reports, which are set out in Sections A and B of Part III of this Document.
- The other adjustments reflect:
  - the estimated net proceeds of the Placing of £2,525,000 after deducting the expenses to be settled in cash.
  - capitalisation of long term directors' loans of £418,438, being the amount outstanding to Directors at 31 December 2004.
  - the acquisition by Stephen Falder of a licence agreement from Byotrol LLC, the consideration for which was the assumption by Stephen Falder of a liability of £52,086, being certain outstanding royalties payable by Byotrol LLC to Stephen Falder and David Rawden.
  - it is assumed for these purposes that there has been no movement in the net assets of the Company or Byotrol LLC since their respective balance sheet dates.



The following is the full text of a report on the Company from Baker Tilly, the Reporting Accountants, to the Directors of the Company, Matrix-Securities Limited and Merchant Capital plc.



**BAKER TILLY**

Brazennose House  
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Manchester  
M2 5BL

The Directors  
Byotrol plc  
Riverside Works  
Collyhurst Road  
Manchester  
M40 7RU

The Directors  
Matrix-Securities Limited  
One Jermyn Street  
London  
SW1Y 4UH

The Directors  
Merchant Capital plc  
Aldermay House  
10-15 Queen Street  
London  
EC4N 1TX

30 June 2005

Dear Sirs

**Byotrol plc (“the Company”)**

**Introduction**

We report on the unaudited pro forma statement of net assets as at 17 May 2005 of the Company, which has been prepared to illustrate the impact of the acquisition of Byotrol LLC by Byotrol plc, the capitalisation of directors’ long term loans in Byotrol LLC, the acquisition of the licence agreement from Byotrol LLC and the effect of the Placing and admission to trading on AIM, a market operated by London Stock Exchange Plc.

**Responsibility**

It is the responsibility of the Directors of the Company to prepare the Pro Forma Financial Statement.

It is our responsibility to form an opinion on the Pro Forma Statement of Net Assets and to report our opinion to you. Our work has been undertaken so that we might state those matters we are required to state in our report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone for any other purpose for our work, for this report or for the opinions we have formed. We do not accept responsibility for any reports previously given by us on any financial information used in the compilation of the Pro Forma Statement of Net Assets beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

**Basis of opinion**

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board and Bulletin 1998/8 “Reporting on pro forma financial information pursuant to the Listing Rules” issued by the Auditing Practices Board. Our work, which involved no independent examination of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering evidence supporting the adjustments and discussing the Pro Forma Statement of Net Assets with the Directors of the Company.

**Opinion**

In our opinion:

- (i) the Pro Forma Statement of Net Assets has been properly compiled on the basis stated;
- (ii) such basis is consistent with the accounting policies of the Company and Byotrol LLC; and
- (iii) the adjustments are appropriate for the purposes of the Pro Forma Statement of Net Assets as disclosed.

Yours faithfully

**Baker Tilly**  
*Chartered Accountants*  
*Registered Auditor*

## PART IV

### ADDITIONAL INFORMATION

#### 1. The Company

- 1.1 The Company was incorporated and registered in England and Wales on 4 February 2005 under the Companies Act 1985 as a private company limited by shares with the name Hallco 1146 Limited and with registration number 5352525. On 13 April 2005, the Company changed its name to Byotrol Limited and, on 17 May 2005, re-registered as a public company.
- 1.2 The principal legislation under which the Company operates is the Act and the regulations made thereunder.
- 1.3 The Company's registered office is St James's Court, Brown Street, Manchester M2 2JF and its principal place of business is at Riverside Works, Collyhurst Road, Manchester M40 7RU.

#### 2. Group Structure

- 2.1 The Company is the holding company of the following subsidiary undertakings:

Company Name	Country of Operation	Percentage of Shares Held
Byotrol LLC	United States	100%
Byotrol Healthcare Products LLC	United States	99%

#### 3. Share Capital

- 3.1 On incorporation, the authorised share capital of the Company was £1,000 divided into 1,000 shares of £1 each, two of which were issued credited as fully paid to the subscribers to the Company's memorandum of association.
- 3.2 On 16 May 2005 by or pursuant to resolutions of the Company passed on that date:
  - 3.2.1 each ordinary share of £1 issued and unissued was sub-divided into 400 Ordinary Shares;
  - 3.2.2 the authorised share capital of the Company was increased from £1,000 to £88,625 by the creation of an additional 35,050,000 Ordinary Shares.
- 3.3 On 29 June 2005 by or pursuant to resolution of the Company passed on that date:
  - 3.3.1 the authorised share capital of the Company was increased from £88,625 to £125,000 by the creation of an additional 14,550,000 Ordinary Shares;
  - 3.3.2 for the purposes of and pursuant to section 80 of the Act, the directors of the Company were generally and unconditionally authorised and empowered to exercise all the powers of the Company to allot the relevant securities (as detailed in section 80(2) of the Act) up to an aggregate nominal amount of £125,000 to such persons at such times and upon such terms and conditions as they may determine (subject always to the articles of association of the company) provided this authority and power shall, unless renewed, varied or revoked, expire at the conclusion of the next annual general meeting or 15 months from the date of the passing of this resolution (whichever is the earlier) and provided further that the Company may before the expiry of such period make any offer, agreement or arrangement which would or might require relevant securities to be allotted after the expiry of such period and the directors of the Company may then allot relevant securities pursuant to any such offer, agreement or arrangement as if the authority or power hereby conferred had not expired and
  - 3.3.3 for the purposes of and pursuant to section 95(1) of the Act, the directors of the Company were authorised and empowered to allot equity securities (within the meaning of section 94 of the Act and in substitution for any other subsisting authorities under the Act) pursuant to the general authority and power conferred by the resolution referred to in 3.3.2 above as if section 89(1) of the Act did not apply to any such allotment provided that this authority and power shall, unless renewed, varied or revoked, expire at the conclusion of the next annual general meeting or 15 months from the date of the passing of this resolution (whichever is the earlier) save 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 of the Company may allot relevant securities in pursuance of such offer or agreement as if the authority conferred hereby had not expired.

- 3.4 On 18 May 2005 the Company issued 200,000 Ordinary Shares in connection with the acquisition of Byotrol LLC in consideration of the transfer to the Company of all of the issued units of Byotrol LLC by the members of that company.
- 3.5 On 18 May 2005 the Company issued 1,629,371 Ordinary Shares of 0.25 pence each in settlement of the following amounts due by Byotrol LLC:

	£	<i>No. of shares issued</i>
Owed to Stephen Falder	236,327	787,757
Owed to David McRobbie	252,484	841,614
	<u>488,811</u>	<u>1,629,371</u>

- 3.6 On 30 June 2005 the Company issued warrants to subscribe for up to 4,365,875 Ordinary Shares to the members of the Company on such date on the basis of 1 warrant for every 5 Ordinary Shares held on such date. The warrants are exercisable at 23p per Ordinary Share at any time from the date that is six months from the date of Admission until the earlier of three years from the date of Admission or one month following the publication of the annual results of the Company for the period ending 30 June 2008.
- 3.7 The Company's authorised and issued ordinary share capital at the date of this document is, and immediately following Admission will be, as follows:

	<i>At date of this document</i>		<i>Following Admission</i>	
	<i>Amount</i>	<i>Number of Ordinary Shares</i>	<i>Amount</i>	<i>Number of Ordinary Shares</i>
	£		£	
Authorised	125,000.00	50,000,000	125,000.00	50,000,000
Issued and fully paid	54,573.43	21,829,371	87,182.12	34,872,849

- 3.8 Save as disclosed in the foregoing sub-paragraphs of this paragraphs and other than in respect of the Placing, the warrants granted to Merchant Capital as described in paragraph 9.6 below and options granted:
- 3.8.1 no shares or loan capital of the Company or any of its subsidiaries has within the 3 years immediately preceding the date of this Document been issued or agreed to be issued or is now proposed to be issued fully or partly paid, for cash or any other consideration or has been purchased by the Company or any of its subsidiaries;
- 3.8.2 no commissions, discounts, brokerages or other special terms have been granted by the Company or any of its subsidiaries in connection with the issue or sale of any share capital; and
- 3.8.3 no share or loan capital of the Company, or of any other company within the Group, is under option or has been agreed, conditionally or unconditionally, to be put under option.
- 3.9 The provisions of section 89(1) of the Act (which confer on shareholders rights of pre-emption in respect of the allotment of equity securities which are, or are to be, paid up in cash other than by way of allotment to employees under an employees' share scheme as defined in section 743 of the Act) will apply to the authorised but unissued share capital of the Company to the extent not disappplied as described in paragraph 3.3.3 above.

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

##### *4.1 Memorandum of Association*

The objects of the Company are set out in full in clause 4 of its Memorandum of Association and include the carrying on of business as a general commercial company.

##### *4.2 Articles of Association*

The Articles of Association of the Company (the "Articles") which were adopted pursuant to a resolution of the Company passed on 16 May 2005 contain provisions, *inter alia*, to the following effect:

#### 4.2.1 Voting Rights

Subject to any rights or restrictions attached to the shares (including as a result of unpaid calls) and/or as mentioned below, on a show of hands every member who (being an individual) is present in person or (being a corporation) is present by a duly authorised representative and is entitled to have a vote shall have one vote on a poll of every member who is present in person or by proxy and entitled to vote shall have one vote for every share of which he is the holder. Where, in respect of any shares, any registered holder or any other person appearing to be interested in such shares fails to comply with any notice given by the Company under Section 212 of the Act, then not earlier than 14 days after service of such notice the shares in question may be disenfranchised.

#### 4.2.2 Variation of Rights

Subject to the Act and every other statute for the time being in force concerning companies and affecting the Company (the “Statutes”), if at any time the capital of the Company is divided into different classes of shares, all or any of the rights and privileges attached to any class of share may be varied or abrogated either (i) in such a manner (if any) as may be provided by the rights attaching to such class or (ii) in the absence of any such provision, with the consent in writing of the holders of at least 75 per cent. of the nominal amount of the issued shares of the relevant class or with the sanction of an extraordinary resolution passed at a separate meeting of the holders of the shares of the relevant class. At any such separate meeting the holders present in person or by proxy of one third of the issued shares of the class in question shall be a quorum. Unless otherwise provided by the rights attaching to any shares, these rights shall be deemed to be varied by the creation or issue of further shares ranking in any respect in priority thereto.

#### 4.2.3 Alteration of Capital

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

The Company may subject to the Statutes, by special resolution reduce its share capital, any capital redemption reserve and any share premium account. Subject to and in accordance with the provisions of the Statutes, the Company may purchase its own shares (including redeemable shares).

#### 4.2.4 Transfer of Shares

The Ordinary Shares are in registered form and may be in certificated or uncertificated form. Shares in uncertificated form may be transferred otherwise than by written instrument in accordance with the Statutes and relevant subordinate legislation. Transfers of shares in certificated form may be effected by instrument in writing in any usual or common form or in any other form acceptable to the Directors. Any instrument of transfer shall be signed by or on behalf of the transferor and (except in the case of fully paid shares) by or on behalf of the transferee. The transferor shall be deemed to remain the holder of the shares until the name of the transferee is entered in the Register of Members.

The Directors may refuse to register the transfer of a share which is in respect of a share which is not fully paid, or which is in favour of more than four transferees or which is in respect of more than one class of shares or which has not been presented for registration duly stamped accompanied by the share certificates for the shares to which the transfer relates and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer.

Where in respect of any shares any registered holder or any other person appearing to be interested in such shares fails to comply with any notice given by the Company under Section 212 of the Act, then the company may prohibit transfers of such shares otherwise than following a sale shown to the satisfaction of the Directors to be of the full legal and beneficial ownership of such shares at arm’s length. The registration of transfers may be suspended by the Directors for any period not exceeding 30 days in a year.

#### 4.2.5 Dividends and other distributions

Subject to the provisions of the Statutes, the Company may by ordinary resolution declare dividends in accordance with the respective rights of the members, but not exceeding the amount

recommended by the Directors. The Directors may pay interim dividends if it appears to them that they are justified by the profits of the Company. Except as otherwise provided by the Articles or the rights attached to any shares issued by the Company, the holders of shares are entitled *pari passu* amongst themselves to share in the whole of the profits of the Company paid out as dividends and the whole of any surplus in the event of liquidation of the Company. A liquidator may, with the sanction of an extraordinary resolution, divide the assets among the members *in specie*. The Directors may, with the sanction of an ordinary resolution, offer the shareholders or any class of them (other than those not entitled to the relevant dividend or dividends) the right to elect to receive Ordinary Shares, credited as fully paid, instead of cash in respect of the whole or part of any dividend or dividends which are the subject of the ordinary resolution.

Where, in respect of any shares, any registered holder or any other person appearing to be interested in shares of the Company fails to comply with any notice given by the Company under Section 212 of the Companies Act, then, provided that the shares concerned represent at least 0.25% per cent, in nominal amount of the issued shares of the relevant class, the Company may withhold dividends on such shares.

All unclaimed dividends may be invested or otherwise made use of by the Directors for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. Any dividend which is unclaimed for a period of 12 years from the date on which the dividend became due for payment shall be forfeited and cease to remain owing by the Company.

## 5. Directors' Interests

- 5.1 The interests of the Directors (all of which are beneficial) in the issued share capital of the Company as at the date of this document and following Admission, such interests being those which are required to be notified by each Director to the Company under the provisions of section 324 and 328 of the Act or which are required to be entered in the register of interests required to be maintained pursuant to section 325 of the Act or which are interests of persons connected with the Director within the meaning of section 346 of the Act, the existence of which is known or which could, with reasonable diligence, be ascertained by a Director, are as follows:

<i>Director</i>	<i>At date of this Document</i>		<i>Immediately Following Admission</i>		
	<i>Number of Ordinary Shares</i>	<i>Percentage of Issued Ordinary Share Capital</i>	<i>Number of Ordinary Shares</i>	<i>Percentage of Issued Ordinary Share Capital</i>	<i>Warrants over Ordinary Shares</i>
W. Devoto	424,200	1.94	424,200	1.22	84,840
D. McRobbie <sup>1</sup>	3,647,614	16.71	3,647,614	10.46	729,523
S. Falder	4,787,757	21.93	4,787,757	13.73	957,551
P. Dandalides	202,000	0.93	202,000	0.58	40,400
I. Mainman	303,000	1.39	303,000	0.87	60,600

<sup>1</sup> Includes 2,806,000 Ordinary Shares registered in the name of, and warrants over 561,200 Ordinary Shares held by, A.S. Technologies LLC a company controlled by D McRobbie.

## 6. Substantial Shareholders

- 6.1 At the date of this document and immediately following Admission so far as the Directors are aware, the only persons, other than the Directors, who are or will be interested in 3 per cent. or more of the Ordinary Share capital of the Company are as follows:

<i>Director</i>	<i>At date of this Document</i>		<i>Immediately Following Admission</i>		
	<i>Number of Ordinary Shares</i>	<i>Percentage of Issued Ordinary Share Capital</i>	<i>Number of Ordinary Shares</i>	<i>Percentage of Issued Ordinary Share Capital</i>	<i>Warrants over Ordinary Shares</i>
John Falder	4,000,000	18.32	4,000,000	11.47	800,000
Brian Falder	2,424,000	11.10	2,424,000	6.95	484,800
RO Holdings ehf <sup>1</sup>	2,828,000	12.96	2,828,000	8.11	565,600
D Rawden	1,010,000	4.63	1,010,000	2.90	202,000

<sup>1</sup> RO Holdings ehf is a company controlled by Ragnar Olafsson.

- 6.2 Save as disclosed in paragraph 5 above or in this paragraph 6, and in so far as the Company has the information, the Directors are not aware of any person or persons who either alone or, if connected,

jointly following the completion of the Placing will be interested (within the meaning of the Act) directly or indirectly in 3 per cent. or more of the issued share capital of the Company.

- 6.3 Save as disclosed in paragraph 5 above or in this paragraph 6, and in so far as the Company has the information, the Directors are not aware of any person or persons who either alone, or, if connected, jointly following Admission will (directly or indirectly) exercise or could exercise control of the Company.

## 7. Additional Information on the Directors

- 7.1 Other than directorships of Group companies, the Directors have held the following directorships or been partners in the following partnerships within the five years prior to the date of this document:

<i>Director</i>	<i>Current</i>	<i>Past</i>
W. Devoto	ASG – Swifts of Scarborough Limited Devoto & Company Inc. ADCO Holdings Inc	Management Search International Inc. Nationwide Warehouse Inc. Bryanston Investments Inc.
D. McRobbie	HMG America LLC AS Technologies LLC HMG Performance Coatings LLC	None
S. Falder	H. Marcel Guest Limited British Coating Federation Limited Bradite Limited Buccaneer International Limited HMG Coatings (South) Limited HMG Paints Limited WH Screeton Associates Limited HMG Coatings (London) Limited Community Forests North West Limited Brimstone Pyrotechnics Limited Red Rose Forest Trust Limited HMG America LLC HMG Performance Coatings LLC	Bridgeway – Sicor Limited HMG Powder Coatings (Midlands) Limited
P. Dandalides	None	None
I. Mainman	Haslam Investments Limited Perkins Solicitors, Manchester	Detailclaim Limited Nailcity Limited Allendale Nursing Home Limited Naturagro Limited Spare Company Limited Claimoption Limited Levelbalance Limited Reinventing Classics Limited Videomeet Limited Abacus Homes & Developments Limited Radical Business Solutions Limited Akademy (Retail) Limited Winsford Suncentre Limited New Lyceum Limited Funding Network Loans Limited The Quay (Red Wharf) Limited A1 Autoclaims Limited Stoller (UK) Limited Landbank (UK) Limited The Property Company (Manchester) Limited

- 7.2 Save as disclosed in this Document, none of the Directors has:
- 7.2.1 any unspent convictions in relation to indictable offences;
  - 7.2.2 had any bankruptcy order made against him or entered into any voluntary arrangements;
  - 7.2.3 been a director of a company which has been placed in receivership, compulsory liquidation, administration, been subject to a voluntary arrangement or any composition or arrangement with its creditors generally or any class of its creditors, whilst he was a director of that company or within the 12 months after he had ceased to be a director of that company;
  - 7.2.4 been a partner in any partnership which has been placed in compulsory liquidation, administration or been the subject of a partnership voluntary arrangement, whilst he was a partner in that partnership or within the 12 months after he ceased to be a partner in that partnership;
  - 7.2.5 been the owner of any asset which has been placed in receivership or a partner in any partnership which has been placed in receivership whilst he was a partner in that partnership or within the 12 months after he ceased to be a partner in that partnership;
  - 7.2.6 been publicly criticised by any statutory or regulatory authority (including recognised professional bodies); or
  - 7.2.7 been disqualified by a court from acting as a director of any company or from acting in the management or conduct of the affairs of a company.
- 7.3 Save as disclosed in this Document, no Director has or has had any interest in any transaction which is or was significant in relation to the business of the Group and which was effected during the current or immediately preceding financial period or which was effected during an earlier financial period and remains outstanding or unperformed.

## **8. Directors' Service Contracts and Remuneration**

- 8.1 On 30 June 2005, David McRobbie entered into a service agreement with the Company in respect of the provision of his services as an executive director of the Company. The agreement is for an initial fixed term of 12 months and thereafter may be terminated by 6 months' written notice by the Company or by David McRobbie, or by the Company forthwith in certain circumstances or in a situation where David McRobbie is not re-elected as a director at any general meeting. An annual fee of £81,000 is payable to David McRobbie and an additional bonus of up to a further 150 per cent. of basic salary on achievement of certain performance targets. The Company makes a contribution of 10 per cent. of his basic salary to his private pension scheme. The Company pays a monthly car allowance of £800 and pays for all fuel.
- 8.2 On 30 June 2005, Stephen Falder entered into a service agreement with the Company in respect of the provision of his services as an executive director of the Company. The agreement is for an initial fixed term of 12 months and thereafter may be terminated by 6 months' written notice by the Company or by Stephen Falder, or by the Company forthwith in certain circumstances or in a situation where Stephen Falder is not re-elected as a director at any general meeting. An annual fee of £81,000 is payable to Stephen Falder and an additional bonus of up to a further 150 per cent. of basic salary on achievement of certain performance targets. The Company makes a contribution of 8 per cent. of his basic salary to his private pension scheme. The Company pays a monthly car allowance of £800 and pays for all fuel.
- 8.3 On 30 June 2005, Peter Dandalides entered into a service agreement with the Company in respect of the provision of his services as an executive director of the Company. The agreement is for an initial fixed term of 12 months and thereafter may be terminated by 6 months' written notice by the Company or by Peter Dandalides, or by the Company forthwith in certain circumstances or in a situation where Peter Dandalides is not re-elected as a director at any general meeting. An annual fee of US\$150,000 is payable to Peter Dandalides and an additional bonus of up to a further 75 per cent. on achievement of certain performance targets. The Company makes a contribution of 10 per cent. on his basic salary to his private pension scheme.
- 8.4 On 30 June 2005, Wesley Devoto entered into a letter of appointment with the Company. This letter of appointment is for an initial fixed term of 6 months and thereafter may be terminated by 3 months' written notice by Wesley Devoto or the Company. The basic fee payable to Wesley Devoto is £6,000 per annum.



- 8.5 On 30 June 2005, Ian Mainman entered into a letter of appointment with the Company. This letter of appointment is for an initial fixed term of 6 months and thereafter may be terminated by 3 months' written notice by Ian Mainman or the Company. The basic fee payable to Ian Mainman is £6,000 per annum.
- 8.6 Save as disclosed in this paragraph 8 there are no existing or proposed service or consultancy agreements between any Director and any member of the Group.
- 8.7 In the period ended 31 December 2004 the total aggregate remuneration paid and benefits-in-kind granted to the Directors was £nil, since the Company was only formed on 4 February 2005. The amounts payable to the Directors by the Group under the arrangements in force at the date of this document in respect of the year ending 31 December 2005 are estimated to be £190,000 (excluding any discretionary payments which may be made under these arrangements).
- 8.8 There is no arrangement under which any Director has waived or agreed to waive future emoluments.

## **9. Material Contracts**

The following contracts, not being contracts entered into in the ordinary course of business, have been entered into by the Group within the two years immediately preceding the date of this document and are, or may be, material:

- 9.1 the Placing Agreement, which is summarised at paragraph 14 below;
- 9.2 a deed of novation dated 16 May 2005 between (1) SB Falder, (2) SB Falder and D Rawden, and (3) the Company under the terms of which the Company acquired certain intellectual property rights from SB Falder in consideration for the allotment of 3,999,200 Ordinary Shares;
- 9.3 an agreement dated 23 May 2005 between (1) RO Holdings ehf and others and (2) the Company under the terms of which the Company acquired the entire issued capital of Byotrol LLC in consideration of the allotment of 200,000 Ordinary Shares to the members of Byotrol LLC;
- 9.4 a nominated adviser agreement dated 30 June 2005 between Matrix Corporate Finance (1), the Company (2) and the Directors (3) pursuant to which Matrix Corporate Finance agreed to act as the Company's nominated adviser in accordance with the AIM Rules. This agreement is for an initial term of one year and shall thereafter continue unless terminated by either party on three months' written notice. The annual fee payable under the agreement is £20,000 payable quarterly in advance;
- 9.5 a broker agreement dated 30 June 2005 between the Company (1), the Directors (2) and Fiske (3) pursuant to which Fiske agreed to act as the Company's broker. The annual fee payable to Fiske is £15,000;
- 9.6 a warrant instrument dated 30 June 2005 executed by the Company pursuant to the terms of which, conditional on Admission, the Company has granted Merchant Capital warrants to subscribe for 3 per cent. of the enlarged share capital of the Company at the Placing Price during the period commencing on Admission and ending on the fifth anniversary of Admission;
- 9.7 lock-in agreements dated 30 June 2005 between Merchant Capital (1), the Company (2), Matrix Corporate Finance (3) and each of John Falder, Brian Falder and RO Holdings ehf (each a "Restricted Shareholder") under which the Restricted Shareholders have agreed, save in certain limited circumstances, not to dispose of any interest in Ordinary Shares for a period of twelve months following Admission nor dispose of any interest in Ordinary Shares for a further period of 12 months except following consultation with the Company's nominated adviser and then only through the Company's broker; and
- 9.8 a warrant instrument dated 30 June 2005 executed by the Company pursuant to which the Company has granted the warrants referred to in paragraph 3.6 above.

## **10. Summary of Principal Features of the Company's Share Option Schemes**

By resolution passed on 18 May 2005, the shareholders of the Company resolved to adopt the Byotrol plc Share Option Scheme (the "Scheme") and Unapproved Share Option Scheme (the "Unapproved Scheme")

A summary of the rules of the Scheme is as follows:

(i) **Grant of Options**

Options can be granted at the discretion of the Directors to employees and members of any of the partnerships of which the Company is a member (a “Relevant Partnership”).

No options can be granted after the tenth anniversary of the date of adoption of the Scheme.

(ii) **Performance Conditions**

The exercise of options is subject to performance conditions. These performance conditions may be changed by the Directors for options to be granted in the future to another objective criterion.

(iii) **Subscription Price**

The subscription price payable on the exercise of options shall be determined by the board of Directors of the Company or its remuneration committee but shall be not less than the greater of market value of the ordinary shares on the date of grant or the nominal value of the share. The market value is the price shown in the *Financial Times* on the date of grant or such other value as may be agreed with the Inland Revenue Shares Valuation Division.

(iv) **Exercise of Options**

Upon the grant of options, a date or dates will be specified, before which options cannot normally be exercised. Options may, however, be exercised earlier, subject to any performance conditions having been satisfied, if the option holder ceases to be an employee or member of a Relevant Partnership by reasons of injury, ill-health, disability, redundancy, retirement on or after the expected retirement date, or death, whereupon the option holder or his personal representatives generally have a period of not more than forty days following such event to exercise the option. If it is not so exercised, the option will lapse. If the option holder ceases to be an employee or a member of a Relevant Partnership for any other reason, then the option shall lapse, at the discretion of the directors. In any event, all options shall lapse on the tenth anniversary of the date of grant.

The rules also provide for the early exercise of options, again provided that any performance conditions have been satisfied, in the event of a change of control of the Company or where a resolution for the voluntary winding up of the Company is passed. The rules also contain provision for the roll over of options in the event of a change of control with the agreement of the acquiring company.

(v) **Adjustment of Options**

In the event of any variation in the share capital of the Company by way of capitalisation, rights issue, consolidation, sub-division, reduction or otherwise, the Company can adjust the number of ordinary shares which are subject to options, and the subscription price for such options.

(vi) **Scheme Amendment**

The Scheme will be administered by the board of Directors of the Company, who have the power to alter its rules.

*Unapproved Scheme*

By resolution of the Board dated 18 May 2005 the Company adopted the Unapproved Scheme. Options may be granted under the Unapproved Scheme on similar terms to options under the Scheme. Participants are not subject to an individual limit. Any employee or officer of the Company is eligible to participate in the Unapproved Scheme and need not meet any working time criteria.

## **11. Working Capital**

The Directors are of the opinion having made due and careful enquiry that, taking into account the net proceeds of the Placing and the existing facilities available to the Group, the Group has sufficient working capital for its present requirements, that is at least 12 months from the date of Admission.

## **12. Taxation**

### *12.1 Introduction*

The information in this section is based on the Directors’ understanding of current tax law and HM Revenue and Customs practice. The following should be regarded as a summary and should not be construed as constituting advice. Prospective shareholders are strongly advised to take their own

independent tax advice but certain potential tax benefits are summarised below in respect of an individual resident in the UK for tax purposes.

On issue, the Ordinary Shares will not be treated as either “listed” or “quoted” securities for tax purposes. Provided that the Company remains one which does not have any of its shares quoted on a recognised stock exchange (which for these purposes does not include AIM) and assuming that the Company remains a trading company or the holding company of a trading group for UK tax purposes, the Ordinary Shares should continue to be treated as unquoted securities qualifying for certain reliefs from UK taxation.

The following information is based upon the laws and practice currently in force in the UK and may not apply to persons who do not hold their Ordinary Shares as investments.

## 12.2 *Capital Gains Tax (“CGT”)*

### 12.2.1 Disposals

Changes were made to the rules relating to the holdings of shares from 6 April 1998 so that the “pooling” of shares (i.e. treating them as one asset) no longer applies. Therefore, any disposal of shares is treated on a last in, first out basis for the purposes of calculating gains which are chargeable to tax.

### 12.2.2 Taper Relief

On 5 April 1998, “taper relief” was introduced which applies to individual investors and trustees (but not to corporate investors). Taper relief reduces the chargeable gain assessable to CGT in relation to the period the investment is held and the scales of relief depend upon whether the investment is a “business” or “non-business” asset. The scale of relief is enhanced for those assets which qualify as “business” assets. Business assets include shares in qualifying unquoted trading companies. For these purposes, companies admitted to trading on AIM are regarded as unquoted.

The Company is a holding company of a trading group and may satisfy the relevant criteria to qualify as a business asset, so that shares in the Company will be deemed to be business assets with the associated accelerated scales of taper relief applicable. It will be necessary to ensure that the qualifying criteria for both the Company and the investor are met to obtain business asset taper relief for the whole period of an investor’s or trustee’s ownership. If this is not the case, the taper relief would be calculated by apportioning any gain assessed on shares in the Company between the non-business and business periods with each part of the gain then attracting taper relief at the appropriate rate, for the whole of the qualifying holding period.

### 12.2.3 CGT Gift Relief

If shares in an AIM company which is a trading company or the holding company of a trading group, are transferred by an individual or the trustees of a settlement, other than at arm’s length, the deemed capital gain can be “held over”, i.e. the CGT liability is postponed until a subsequent arm’s length disposal by the transferee, who effectively inherits the transferor’s base cost. The relief must be claimed jointly by both the transferor and the transferee within five years and ten months of the end of the relevant tax year in which the gift was made and the transferee must be resident or ordinarily resident in the UK and remain so for six years. If CGT gift relief is claimed, the effect of the gift is that the ownership for taper relief purposes starts again, with no taper relief in respect of the previous period of ownership being applicable. Where the shares have not qualified throughout the period of ownership as business assets, then the amount of the gain that can be held over will be restricted. In addition, Section 116 of the Finance Act 2004 provides for the restriction of relief for gifts to settlor interested trusts.

## 12.3 *Inheritance Tax (“IHT”)*

Shares in qualifying trading companies or holding companies of a trading group can attract 100 per cent. business property relief from IHT provided that the shares are held for at least two years before a chargeable transfer for IHT purposes. To the extent that the value of a shareholding is attributable to assets owned by the company, but not used for the purpose of the company’s trade, the value qualifying for Business Property Relief will be restricted.

## 12.4 *Income Tax*

### 12.4.1 Taxation of Dividends

The statements that follow assume that no dividends paid by the Company will be treated as foreign income dividends pursuant to the provisions of the Finance Act 1997 and that the Company will not elect to pay any foreign income dividends under the provisions contained in the Finance Act 1994. The Directors have no present intention of paying any dividends which are, or may be treated as, foreign income dividends.

12.4.1.1 Under current UK tax legislation, no tax is now withheld from dividends paid by the Company. Advance Corporation Tax (“ACT”) has been abolished since 6 April 1999.

12.4.1.2 UK resident individual shareholders are treated as having received income of an amount equal to the sum of the dividend and its associated tax credit, the tax credit for dividends paid from 6 April 1999 being 10 per cent. of the combined amount of the dividend and the tax credit (i.e. the tax credit will be one ninth of the dividend). The tax credit will effectively satisfy a UK resident individual shareholder’s lower and basic rate (but not higher rate) income tax liability in respect of the dividend. UK resident individual shareholders subject to tax at the higher rate (currently 40 per cent.) will have to account for additional tax. The special rate of tax set for higher rate taxpayers who receive dividends is 32.5 per cent. After taking account of the 10 per cent. tax credit, such a taxpayer would have to account for additional tax of 22.5 per cent. In determining what tax rates apply to a UK resident individual shareholder, dividend income is treated as his top slice of income.

12.4.1.3 Prior to 6 April 1999, in appropriate cases, individuals and charities were able to reclaim all or part of the tax credit attaching to a dividend in cash from HM Revenue and Customs. From 6 April 1999 they are no longer able to do so although over a transitional period to 2003/04, charities (but not individuals) were able to claim a compensatory payment calculated as a percentage payment of their dividend income.

12.4.1.4 A UK resident (for tax purposes) corporate shareholder will generally not be liable to UK corporation tax on any dividend received and will be entitled for tax purposes to treat any such dividend and the related tax credit as franked investment income.

12.4.1.5 A UK pension fund, as defined in Section 231A Income and Corporation Taxes 1988, is restricted from claiming a repayment of the tax credit.

12.4.1.6 Shareholders not resident in the UK, are generally not taxed in the UK on dividends received by them (unless, exceptionally, the investment is managed by a UK investment manager acting, broadly, on arm’s length terms). By virtue of double taxation agreements between the UK and other countries, some overseas shareholders are able to claim payment of all or part of the tax credits carried by the dividends they receive from UK companies. Persons who are not resident in the UK should consult their own tax advisers on the possible applicability of such provisions, the procedure for claiming repayment and what relief or credit may be claimed in respect of such tax credit in the jurisdiction in which they are resident.

### 12.4.2 Loss Relief

If a loss arises on the disposal of shares in a trading company, such shares being originally acquired on a subscription for new shares, the loss may be relieved against income of that year or the previous year (with priority for relief in the current year where income of both years is utilised). Any loss remaining after claiming relief against income may be available for relief against capital gains in either the current or subsequent years.

### 12.4.3 Qualifying Investment Relief

A gift to a charity of a “qualifying investment” will qualify for income tax relief under section 587B of the Income and Corporation Taxes Act 1988 (“ICTA”). Shares in an AIM company are currently treated as “qualifying investments”. Therefore, if an individual disposes of shares in a company on AIM to a charity (of which an individual may be the settlor or a trustee), the gift qualifies for income tax relief. The amount of relief is calculated based on the market value of the

“qualifying investment” at the date of the gift and the incidental costs of making the disposal. The gift will also be exempt from capital gains tax.

## 12.5 *Stamp duty and stamp duty reserve tax*

Transfers or sales of Ordinary Shares will be subject to *ad valorem* stamp duty (payable by the purchaser and generally at the rate of 0.5 per cent. of the value or amount of the consideration paid, rounded up to the next multiple of £5) and an unconditional agreement to transfer such shares, if not completed by a duly stamped stock transfer form within two months of the day on which such agreement is made or becomes unconditional, will be subject to SDRT (payable by the purchaser at a rate of 0.5 per cent of the consideration paid rather than stamp duty). However, if within 6 years of the date of the agreement an instrument of transfer is executed pursuant to the agreement and stamp duty is paid on that instrument, any liability to SDRT will be cancelled or repaid.

## 12.6 *Enterprise Investment Scheme, Venture Capital Trusts and the Corporate Venturing Scheme*

### 12.6.1 **Enterprise Investment Scheme**

This scheme applies to individual investors (not companies). Where an investment is made by a qualifying individual in eligible shares of a qualifying company then the following three forms of relief are available:

#### 12.6.1.1 **Income Tax relief**

Relief from income tax at the rate of 20% of the investment, limited to income tax due for the year. Maximum investment £200,000 from 6 April 2004.

#### 12.6.1.2 **CGT disposal relief**

No CGT is chargeable on a disposal of shares which qualified for income tax relief, provided that they are held for a period of three years.

#### 12.6.1.3 **CGT deferral relief**

A charge to capital gains tax on another disposal can be deferred by reinvesting the proceeds in shares of an EIS company within 12 months previous to and three years following that disposal. The gain becomes chargeable when the EIS shares are disposed of.

The Company has applied for its shares to qualify for EIS reliefs and HM Revenue and Customs have confirmed that shares in the company should qualify for those reliefs.

### 12.6.2 **Venture Capital Trusts**

This scheme also applies to individual investors (not companies). Investment is made into a VCT company (a quoted company approved as a VCT by HM Revenue and Customs) which then invests into other qualifying companies. With effect from 6 April 2004 there are three forms of relief applying to investment in a VCT.

#### 12.6.2.1 **Income Tax relief**

Relief from income tax at the rate of 40% of the investment for shares issued in 2004/05 and 2005/06, limited to income tax due for the year. Maximum investment £200,000 from 6 April 2004.

#### 12.6.2.2 **CGT disposal relief**

No CGT is chargeable on a disposal of shares which qualified for income tax relief, provided that they remain in a VCT at the time of disposal.

#### 12.6.2.3 **Distribution relief**

Exemption from income tax on dividends in respect of ordinary shares in a VCT to the extent that the shares acquired each year do not exceed the income tax relief limits.

The Company has applied for its shares to be qualifying VCT investments and HM Revenue and Customs have confirmed that shares in the company should so qualify.

Each of these schemes has very detailed qualification requirements which must be satisfied over an extended period of time. Potential investors are advised to seek advice from their own tax advisors as to whether such reliefs are available to them and as to the conditions to be satisfied.

### **13. Litigation**

The Group is not involved in any legal or arbitration proceedings which may have or have had in the twelve months preceding the date of this document a significant effect on the Group's financial position and, as far as the Directors are aware, there are no such proceedings pending or threatened.

### **14. Arrangements relating to the Placing**

14.1 Pursuant to the Placing Agreement, Matrix Corporate Finance has agreed to act as the Company's Nominated Adviser and Merchant Capital has agreed, as agent for the Company, to use its reasonable endeavours to procure subscribers for the Placing Shares at the Placing Price. Under the Placing Agreement:

- 14.1.1 the Company has agreed to pay Matrix Corporate Finance a fee of £50,000;
- 14.1.2 the Company has agreed to pay Merchant Capital a corporate advisory fee of £100,000 plus an amount equal to 5 per cent of the total proceeds of the Placing, out of which Merchant Capital will pay broking commissions;
- 14.1.3 the Company has agreed to pay all other costs and expenses of the Placing and related arrangements together with Value Added Tax on all such costs and expenses;
- 14.1.4 the Company and the Directors have given certain warranties and indemnities to Merchant Capital and to Matrix Corporate Finance as to the accuracy of information in this document and as to other matters in relation to the Company and its business;
- 14.1.5 each of the Directors has undertaken to the Company, Matrix Corporate Finance and Merchant Capital that, save in limited circumstances, they will not dispose of, and to use all reasonable endeavours to procure that any Connected Person will not dispose of, any interest in Ordinary Shares for a period of 12 months following Admission nor dispose of any interest in Ordinary Shares for a further period of 12 months except following consultation with the Company's nominated adviser and then only through the Company's broker.

14.2 The Placing is not underwritten.

14.3 The Placing Agreement may be terminated by Matrix Corporate Finance or Merchant Capital before completion of the Placing in certain circumstances, including for material breach of the warranties referred to above.

### **15. General**

15.1 The total proceeds of the Placing are £3.0 million. The estimated amount of the expenses of the Placing, which are all payable by the Company, is approximately £475,000 (excluding VAT). The net proceeds of the Placing will be approximately £2,525,000.

15.2 Baker Tilly of Brazenose House, Lincoln Square, Manchester M2 5BL, the auditors of the Company, have given and have not withdrawn their written consent to the inclusion in this Document of references to their name in the form and context in which it appears and their reports in Part III of this document and accept responsibility for these reports for the purposes of paragraphs 10(2) and 45(1)(b)(iii) of Schedule 1 to the Public Offers of Securities Regulations 1995.

15.3 Matrix Corporate Finance, a division of Matrix-Securities Limited, whose registered office is at 1 Jermyn Street, London SW1Y 4UH, has given and not withdrawn its written consent to the inclusion in this Document of references to its name in the form and context in which they appear.

15.4 Merchant Capital, whose registered office is at Aldermary House, 15 Queen Street, London EC4N 1TX, has given and not withdrawn its written consent to the inclusion in this Document of references to its name in the form and context in which they appear.

15.5 The financial information contained in this Document does not constitute full statutory accounts as referred to in section 240 of the Act.

- 15.6 Save as disclosed in this Document there has been no significant change in the financial or trading position of the Group since 31 December 2004.
- 15.7 For the purposes of paragraph 21(a) of Part IV of Schedule 1 of the POS Regulations the minimum amount which, in the opinion of the Directors, must be raised is approximately £3.0 million which will be applied towards working capital and the expenses of Admission and the Placing.
- 15.8 The accounting reference date of the Company is 30 June.
- 15.9 The Ordinary Shares are in registered form. No temporary documents of title will be issued.
- 15.10 Save as disclosed in this document, no person (other than a professional adviser referred to in this Document or trade suppliers dealing with members of the Group) has received, directly or indirectly, from any member of the Group, within the twelve months preceding the date of this Document or entered into any contractual arrangement (not otherwise disclosed in this document) to receive, directly or indirectly, from any member of the Group on or after Admission, fees totalling £10,000 or more or securities in the Company with a value of £10,000 or more at the date of Admission.
- 15.11 Save as set out in this Document, there are no patents or intellectual property rights, licences or particular contracts which are of fundamental importance to the Group's business.
- 15.12 The Placing Price represents a premium of 22.75p over the nominal value of 0.25p per Ordinary Share.

#### **16. Publication of this document**

Copies of this document will be available free of charge to the public at the offices of Halliwells at St James's Court, Brown Street, Manchester M2 2JF from the date of this document until one month from Admission.

Dated 30 June 2005

