Signed

KIOTECH INTERNATIONAL PLC

FOR THE YEAR ENDED 31 DECEMBER 2005

COMPANY INFORMATION

REGISTERED NUMBER:	03345857	
REGISTERED OFFICE:	78 Coombe Road New Malden Surrey KT3 4QS	
DIRECTORS:	R Rose	Non-executive chairman
	N C J Scott	Director
	D C G Gyle-Thompson	Non-executive director
	P A Lawrence	Non-executive director
SECRETARY:	Lawrence plc	
BANKERS:	NatWest Mitcham Branch 282 London Road Mitcham Surrey CR4 2ZP	
AUDITORS:	FW Stephens 10 Charterhouse Square London EC1M 6LQ	

KIOTECH INTERNATIONAL PLC

FOR THE YEAR ENDED 31 DECEMBER 2005

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KIOTECH International Plc– Chairman and executive director's statement.

Introduction

We are pleased to report that the year to 31 December 2005 has seen Kiotech make continued progress with encouraging results from early stage aquaculture trials. Its innovative biotechnology products are currently being supplied to the sports fishing industries worldwide and the technology is being further developed to suit the much larger aquaculture and commercial markets.

In June 2005 Kiotech moved up from Ofex to AIM, a market regulated by the London Stock Exchange. At that time we raised £1.82 million net of expenses through the placing of 31.657 million new ordinary shares at seven pence each principally with financial institutions. The AIM quotation reflected the Board's confidence in the progress Kiotech had made in its development programme coupled with the belief that the time was now right to move to a larger exchange, which would offer the company enhanced investor and commercial visibility. The proceeds of the placing enable the company to continue its research and development programme while also meeting general working capital needs.

Results

The loss for the year was broadly in line with the expectations disclosed in the AIM Prospectus. In the short term Kiotech will continue to generate net losses, mainly due to the planned ongoing research and development expenditure attributable to its aquaculture products.

Sales of Ultrabite for the year were lower than originally planned due to the decision taken by the board to change our distribution arrangements midway through the year by granting Rapala VMC Corporation an exclusive worldwide distribution contract for the sports fishing market. Whilst this will be most beneficial in the future, there was inevitably some disruption to sales as the handover took place. All sales are currently attributable to Ultrabite, which is making a profitable contribution.

Administration costs for the first half of the year, were high as reported in the Interim Statement. Firm action has since been taken with the closure of the Company's office and the appointment of Lawrence Plc to handle all administration on a contract basis. This is already delivering considerable cost savings and allows us to redirect additional cash towards product development.

CEFAS

Kiotech works in partnership with the UK Government Agency CEFAS (The Centre for Environment, Fisheries & Aquaculture Science) to develop and market innovative pheromone technology to the global sports fishing and aquaculture markets. The agreement with CEFAS, which commenced in October 2002, gives Kiotech an exclusive global license to commercially exploit the results of CEFAS' research into certain formulations that influence fish behaviour.

Sports Fishing

Ultrabite, launched in 2001, is a pheromone based fishing product and is aimed at the global sports and leisure market. Angling is a huge industry; it is estimated that in the UK alone there are over 3.5million participants. In order to maximize the sales potential of Ultrabite, in September we were delighted to appoint Rapala VMC Corporation as Kiotech's exclusive worldwide distributor of Ultrabite to the sports fishing market. Rapala, which has its headquarters in Finland, is the leading distributor of sports fishing related products with a global network and is an ideal partner. In October Kiotech's Chief Executive, John Loftus, left our board and joined Rapala with responsibility for marketing Ultrabite. John's experience and specialist product knowledge should help to accelerate the sales opportunity for Ultrabite through Rapala's well-established global distribution network.

It is premature to assess the progress of Rapala's sales campaign but we are confident that the inclusion of Ultrabite in Rapala's next catalogue should lead to a significant uplift in revenue for Kiotech.

Strategy –Aquaculture

Worldwide demand for seafood and fish products is increasing. United Nations, projections show that there will be world demand for a further 90 million metric tonnes per annum of edible seafood by 2040; this would require a doubling of the current supply of edible fish and shellfish. Statistics indicate that currently 25 per cent. of wild fish stocks are over harvested and another 30 to 40 per cent. are fully exploited. Kiotech believes that additional demand can only be satisfied through increased aquaculture.

Kiotech and CEFAS have created a research and marketing strategy to further develop the pheromone technology to permit more sustainable forms of feed to be utilized throughout the aquaculture industry and to reduce the production of feed waste so conserving wild fish populations and the aquatic environment.

It is from this research that the basis of a new range of pheromone stimulants is being developed for the aquaculture market. Currently, testing or trials are being carried out with a number of species, including shrimp, tilapia, sea bream, bass, carp and catfish. Following the success of the cod trials completed last year in Norway, we are encouraged by the technology and progress being made by our partnership with CEFAS and will report our progress as the various trials are completed. Product development is most advanced with carp and we are currently setting up some large-scale trials with various aquaculture partners in China.

It is too early to be precise regarding the commercial viability of these products but it is possible that marketing could commence within the next two years.

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

In the short-term the application of pheromone formulations will attempt to increase the feeding activity of farmed fish and therefore the uptake of existing fish-based feeds within the aquaculture industry with the aim of reducing the amount of waste from uneaten feed, which results in significant environmental damage.
In the longer term the pheromone-based technology will aim to permit the use of more sustainable forms of proteins within feeds, which are not based on fish oils or proteins which it is intended to protect wild fish populations from further depletion to satisfy the increased demands expected from the aquaculture sector.
The aquaculture industry is estimated to be worth in the region of $60 billion and has had an average annual compound growth of close to nine per cent since 1970. Currently aquaculture accounts for 30 per cent of fin fish, crustacean and shellfish supplied to the market and this is set to rise to 50 per cent by 2030. There is a brake on this accelerating growth as a large proportion of the make up of the feed for farmed fish is fish oil and meal derived from wild fish stocks. The supply of this raw material is unsustainable and the industry is focused upon providing feed stimuli that will mask the taste of terrestrial crop based feeds and make them palatable to marine fin fish. Kiotech's novel product range is being developed with CEFAS to fill this void in the industry's product range.

Management

Richard Rose joined the Board as a non-executive director in March 2005, just prior to the flotation on AIM. In September the Board was strengthened further with the appointment of Peter Lawrence as a non-executive director. Peter is Chairman of Lawrence Plc, a company with experience in the fish and aquaculture markets. In February 2006, Richard Rose was appointed non-executive Chairman of the Company succeeding Nicholas Scott who assumed the position of executive Director with responsibility for business development.

Following John Loftus's move to Rapala, Nicholas Scott is Kiotech's sole executive director. Nicholas is a founder of Kiotech with considerable knowledge and experience .

Outlook

Rapala is committing considerable resource in marketing the Ultrabite product and we are confident that once its network has full access to the products during the latter part of 2006 we should see the benefit in sales.

The exciting potential of our technology will be in the commercial and aquaculture markets and we are encouraged by the results of early stage trials being conducted under the management and supervision of CEFAS. Whilst much work remains to be done we, together with CEFAS, are confident of the long-term commercial value of the technology.

Richard Rose
Chairman

Nicholas Scott
Executive director

11/6/06

REPORT OF THE DIRECTORS

Year Ended 31 December 2005

The directors present their annual report and audited financial statements for the year ended 31 December 2005.

PRINCIPAL ACTIVITIES

The principal activities of the group in the year under review were those of development and exploitation of biochemical attractants.

BUSINESS REVIEW AND FUTURE DEVELOPMENTS

A full review of the year, together with an indication of future developments, is given in the chairman's statement on page 3 to 5.

RESULTS AND DIVIDENDS

The loss for the period before taxation was £697,171 (2004: £372,565). After taxation the loss amounted to £697,171 (2004: £346,077). The directors are unable to propose a final dividend.

SUBSTANTIAL SHAREHOLDINGS

At 31 December 2005, the company had been notified of the following holdings of 3% or more of its issued share capital.

	Ordinary shares	**%**
Invesco Asset Management	3,571,500	5.4
J P Morgan Asset Management	3,550,000	5.4
First State Aim VCT	3,600,000	5.4
RBS British Smaller Co. Fund	3,600,000	5.4
Artemis VCT2	3,571,430	5.4
F & C Asset Management	2,912,574	4.4
N C J Scott	2,397,003	3.6
Framlington Investment Management	2,142,860	3.2

RESEARCH AND DEVELOPMENT

The group spent £127,796 during the year on research and development (2004: £57,953).

DIRECTORS

The directors during the year under review were:

R Rose	Non-executive chairman	(appointed 21 February 2006, and appointed Non-executive director on 17th March 2005)
N C J Scott	Director	
D C G Gyle-Thompson	Non-executive director	
P A Lawrence	Non-executive director	(appointed 24 August 2005)
J B Loftus	Non-executive director	(resigned 30 September 2005)

The beneficial interests of the directors holding office on 31 December 2005 in the issued share capital of the company were as follows:

	Ordinary shares	
	2005	2004
N C J Scott	**2,397,003**	1,697,033
D C G Gyle –Thompson	**1,502,667**	1,502,667
R Rose	**714,300**	-
P A Lawrence	**642,870**	-

Under the group's enterprise management incentive scheme the following directors have the right to acquire Ordinary shares.

N C J Scott :	Total 1,500,000	(2005: 250,000 at 7.38p	2004: 1,250,000 at 14p)	
D C G Gyle-Thompson:	Total 1,350,000	(2005: 250,000 at 7.38p	2004: 1,100,000 at 14p)	
R Rose:	Total 500,000	(2005: 500,000 at 7p)		
P A Lawrence:	Total 500,000	(2005: 500,000 at 7.38p)		

CREDITORS PAYMENT POLICY

The company agrees terms and conditions for its business transactions with its suppliers and payments are made on these terms, subject to the terms and conditions being met by the suppliers. Trade creditors at the year end amounted to 40 days (2004: 79 days) of average supplies for the year against terms agreed with our suppliers.

INTERNAL FINANCIAL CONTROL

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

CORPORATE GOVERNANCE

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

CHARITABLE AND POLITICAL CONTRIBUTIONS

There were no charitable donations made in the year (2004: nil). There were no donations made to political parties (2004: nil).

STOCKBROKERS

J M Finn & Co. are the company's stockbrokers and Grant Thornton are the company's nominated advisors. The closing share price on 31 December 2005 was 7.875p per share.

DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and the group and of the profit or loss of the group for that period. In preparing those financial statements, the directors are required to:

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

The directors are responsible for keeping proper accounting records, for safeguarding the assets of the company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

AUDITORS

F W Stephens were appointed auditors to the company and in accordance with Section 385 of the Companies Act 1985, a resolution proposing that they be re-appointed will be put to the Annual General Meeting.

BY ORDER OF THE BOARD

Lawrence Plc – Secretary

31 May 2006

REPORT OF THE AUDITORS

Independent Auditors' Report to the members of Kiotech International plc

We have audited the group and parent company financial statements of Kiotech International Plc on pages 10 to 20 for the year ended 31 December 2005, which comprise of the group profit and loss account, the group and company balance sheet, the group cashflow statement and the related notes. These financial statements have been prepared under the historical cost convention and the accounting policies set out therein.

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

Respective responsibilities of the directors and auditors

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

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

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

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

Basis of audit opinion

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

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

Opinion

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

FW Stephens
Registered Auditors
Chartered Accountants
1/6/06

PRINCIPAL ACCOUNTING POLICIES

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

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

BASIS OF CONSOLIDATION
The consolidated financial statements comprise the accounts of the company and its trading subsidiaries drawn up to 31 December 2005. The results of subsidiary undertakings acquired and disposed of during the year have been included from the date of acquisition and to the date of disposal. Profit or losses on intra-group transactions are eliminated in full.

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

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

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

Plant and machinery	– 33% on cost
Fixtures and fittings	– 33% on cost
Office equipment	– 33% on cost

INVESTMENTS
Investments are stated at cost less amounts written off.

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

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

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

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

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

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

KIOTECH INTERNATIONAL PLC

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2005

	Note	**2005**	2004
		£	£
TURNOVER	1	**159,050**	217,368
Cost of sales		**(114,358)**	(148,840)
Provision for slow moving stock write off	8	**(215,376)**	-
GROSS (LOSS)/PROFIT		**(170,684)**	68,528
Administrative expenses		**(565,664)**	(446,674)
OPERATING LOSS		**(736,348)**	(378,146)
Net interest	2	**39,177**	5,581
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		**(697,171)**	(372,565)
Tax on loss on ordinary activities	4	**-**	26,488
Loss retained and transferred from reserves		**(697,171)**	(346,077)
Basic loss per share (pence)	5	**(1.38)**	(1.07)
Diluted loss per share (pence)	5	**(1.33)**	-

All transactions arise from continuing operations
There were no recognised gains or losses other than the loss for the year.

The accompanying accounting policies and notes form an integral part of these financial statements.

KIOTECH INTERNATIONAL PLC

CONSOLIDATED BALANCE SHEET

For the year ended 31 December 2005

As at 31 December 2005	Note	**Group 2005 £**	Group 2004 £	**Company 2005 £**	Company 2004 £
FIXED ASSETS					
Tangible assets	6	**2,140**	3,760	**-**	-
Investments	7	**-**	-	**1,054**	1,054
		2140	3,760	**1054**	1,054
CURRENT ASSETS					
Stocks	8	**30,901**	303,952	**-**	-
Debtors	9	**94,545**	75,815	**2,100**	23,272
Cash at bank and in hand	11	**1,785,290**	476,952	**1,729,271**	452,979
		1,910,736	856,719	**1,731,371**	476,251
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	10	**(145,941)**	(241,967)	**(3,468)**	(6,559)
NET CURRENT ASSETS		**1,764,795**	614,752	**1,727,903**	469,692
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,766,935**	618,512	**1,728,957**	470,746
CAPITAL AND RESERVES					
Called up share capital	12	**2,503,529**	2,186,958	**2,503,529**	2,186,958
Share premium account	13	**6,504,675**	5,010,652	**6,504,675**	5,010,652
Other reserves		**147,500**	112,500	**147,500**	112,500
Profit and loss account		**(7,388,769)**	(6,691,598)	**(7,426,747)**	(6,839,364)
EQUITY SHAREHOLDERS' FUNDS	14	**1,766,935**	618,512	**1,728,957**	470,746

The financial statements were approved by the Board of Directors on 1/6/06

N C J Scott - Director Nicholas Scott

The accompanying accounting policies and notes form an integral part of these financial statements

KIOTECH INTERNATIONAL PLC

CONSOLIDATED CASHFLOW STATEMENT

For the year ended 31 December 2005

	Note	2005 £	2004 £
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	15	**(541,433)**	(479,225)
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		**39,247**	7,417
Interest paid		**(70)**	(1,836)
		39,177	5,581
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT			
Purchase of tangible fixed assets		**-**	(3,826)
FINANCING			
Issue of shares		**2,215,991**	933,741
Expenses paid in connection with share issues		**(405,397)**	(20,707)
		1,810,594	913,034
Increase in cash	16	**1,308,338**	435,564

The accompanying accounting policies and notes form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

1 TURNOVER AND LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

Turnover is attributable to the principal activity of the company.

An analysis of turnover by geographical markets is given below:

	2005	2004
	£	£
Europe	72,004	46,456
Rest of the World	87,046	170,912
	159,050	217,368

The loss on ordinary activities is stated after charging:	2005	2004
	£	£
Auditors' remuneration:		
Audit services	20,855	18,000
Non-audit services	10,666	3,500
Depreciation	1,620	4,416
Loss on fixed asset investment	-	110
Operating lease payments on buildings	-	7,605
Operating lease payments - other	-	4,306
Research and development	127,796	57,953
Issue of share options	35,000	112,500

2 NET INTEREST	2005	2004
	£	£
On bank and other loans and overdrafts	(70)	(1,836)
Other interest receivable	39,247	7,417
	39,177	5,581

3 DIRECTORS AND EMPLOYEES	2005	2004
	£	£
Staff costs during the year, including Directors, were a follows:		
Wages and salaries	200,455	115,290
Social security costs	17,089	14,673
	217,544	129,963

The average number of employees, including Directors, during the year was:	2005	2004
	Number	Number
Management and administration	6	7

Remuneration in respect of directors was as follows:

	2005	2004
	£	£
Emoluments	104,971	51,714

This remuneration can be split by director as follows:	Salary and fees 2005	Salary and fees 2004
D C G Gyle-Thompson	20,000	1,722
J B Loftus	39,996	49,992
N Scott	25,000	-
P A Lawrence	3,333	-
R Rose	16,642	-

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

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

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

KIOTECH INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

4 TAX ON LOSS ON ORDINARY ACTIVITIES

The taxation credit represents:

	2005	2004
	£	£
UK corporation tax at 30% (2004: 30%)	-	(13,909)
Adjustments to prior years	-	(12,579)
	-	(26,488)

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

	2005	2004
	£	£
Loss on ordinary activities before taxation	**(697,171)**	(372,565)
Loss on ordinary activities before taxation multiplied by standard rate of UK corporation tax of 30% (2004: 30%)	**(209,151)**	(111,769)
Effects of:		
Non deductible expenses	**16,906**	63,983
Capital allowances	**(4,161)**	(474)
Increase in trading losses	**196,406**	26,511
Other short term timing differences	-	21,749
Research and development tax credited (surrender of losses)	-	(13,909)
Adjustment in respect of prior years	-	(12,579)
	-	(26,488)

Losses amounting to approximately £5.5 million remain available for offset against future trading profit although these are not recognised in the balance sheet.

5 LOSS PER SHARE

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

6 TANGIBLE FIXED ASSETS

Group	Office Equipment	Fixtures and fittings	Plant and machinery	Total
	£	£	£	£
Cost:				
At 1 January 2005	2,407	1,342	1,709	5,458
Disposals	860	492	-	1,352
At 31 December 2005	**3,267**	**1,834**	**1,709**	**6,810**
Depreciation:				
At 1 January 2005	1,125	525	48	1,698
Provided in the year	755	295	570	1,620
Disposals	860	492	-	1,352
At 31 December 2005	**2,740**	**1,312**	**618**	**4,670**
Net book amount:				
At 31 December 2005	**527**	**522**	**1,091**	**2,140**
At 31 December 2004	1,282	817	1,661	3,760

The Company did not hold tangible fixed assets at any time during the year.

7 FIXED ASSET INVESTMENTS

The Company

	Investment in Group undertakings
	£
Cost	
At 1 January 2005	1,054
At 31 December 2005	**1,054**

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

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

KIOTECH INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

8 **STOCKS**

	2005 Group £	2004 Group £
Raw materials	**17,919**	18,692
Work in progress	**12,982**	4,903
Finished goods	**-**	280,357
	30,901	303,952

The directors consider that there could be a stock of sports fishing products that, under the new distribution agreements with Rapala, may take a considerable time to sell. Therefore a total provision of £215,376 for that stock has been made in these accounts.

9 **DEBTORS**

	2005 Group £	2004 Group £	2005 Company £	2004 Company £
Trade debtors	**10,729**	29,946	**-**	-
Other debtors	**61,407**	25,922	**-**	18,548
Corporation tax	**1,977**	15,075	**-**	-
Prepayments	**20,432**	4,872	**2,100**	4,724
	94,545	75,815	**2,100**	23,272

10 **CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR**

	2005 Group £	2004 Group £	2005 Company £	2004 Company £
Trade creditors	**117,290**	90,571	**2,468**	5,559
Social security and other taxes	**-**	4,764	**-**	-
Other creditors	**2,046**	2,046	**1,000**	1,000
Accruals	**26,605**	144,588	**-**	-
	145,941	241,967	**3,468**	6,559

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

11 **FINANCIAL INSTRUMENTS**

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

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

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

Short-term Debtors and Creditors

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

Currency risk

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

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

	2005	2004
	£	£
Cash at bank and in hand.	**1,785,290**	476,952

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

12 **CALLED UP SHARE CAPITAL**

	2005	2004
Authorised:	**£**	£
2,000,000,000 ordinary shares of 1p each	**20,000,000**	20,000,000
1,859,672 'A' shares of 99p each	**1,841,075**	1,841,075
	21,841,075	21,841,075
Allotted, issued and fully paid:		
66,245,362 (2004:34,588,362) ordinary shares of 1p	**662,454**	345,883
1,859,672 'A' shares of 99p each	**1,841,075**	1,841,075
	2,503,529	2,186,958

On 29th June 2005 31,657,000 shares were issued when the company was listed on the A I M market. The issue price was 7p and the difference between the total consideration received of £2,215,990 and the total nominal value of £316,570 has been credited to the share premium account.

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

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

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

KIOTECH INTERNATIONAL PLC

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13 SHARE PREMIUM ACCOUNT AND RESERVES

Group

	Share premium account	Other reserves	Profit and loss account
	£	£	£
At 1 January 2005	5,010,652	112,500	(6,691,598)
Retained loss for the year	-	-	(697,171)
Issue of share options below market value	-	35,000	-
Share premium on shares issued during the year	1,899,420	-	-
Cost of A.I.M. floatation	(405,397)	-	-
At 31 December 2005	**6,504,675**	**147,500**	**(7,388,769)**

The Company does not present its profit and loss account as it is exempt from doing so under section 230 of the Companies Act 1985. The loss for the year of the Company was £587,383 (2004: £980,483).

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

14 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

Group

	2005	2004
	£	£
Loss for the financial year	**(697,171)**	(346,077)
Issue of shares	**1,810,594**	913,034
Issue of share options	**35,000**	112,500
Shareholders' funds at 1 January 2005	**618,512**	(60,945)
Shareholders' funds at 31 December 2005	**1,766,935**	618,512

KIOTECH INTERNATIONAL PLC

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For the year ended 31 December 2005

15 **NET CASH OUTFLOW FROM OPERATING ACTIVITIES**

	2005	2004
	£	£
Operating loss	(736,348)	(378,146)
Depreciation	1,620	4,416
Loss on fixed asset investment	-	110
Issue of share options	35,000	112,500
Decrease in stocks	273,051	14,028
(Increase)/decrease in debtors	(18,730)	25,320
(Decrease) in creditors	(96,026)	(257,453)
Net cash outflow from operating activities	(541,433)	(479,225)

16 **RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT**

	2005	2004
	£	£
Increase in cash in the year	1,308,338	435,564
Movement in net funds in the year	1,308,338	435,564
Net funds at 1 January 2005	476,952	41,388
Net funds at 31 December 2005	1,785,290	476,952

17 **ANALYSIS OF CHANGES IN NET FUNDS**

	At 1 January 2005	Cashflow	At 31 December 2005
	£	£	£
Cash at bank and in hand	476,952	1,308,338	1,785,290

18 **CAPITAL COMMITMENTS**

The group had no authorised capital commitments as at 31 December 2005 or 31 December 2004

19 **CONTINGENT LIABILITIES**

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

20 **LEASING COMMITMENTS**

Group

The group had no leasing commitments under non-cancellable operating leases (2004:£206)