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This document has been drawn up in accordance with the Public Offers of Securities Regulations 1995, as amended ("POS Regulations") and a copy of this document has been delivered to the Registrar of Companies in England and Wales for registration pursuant to paragraph 4(2) of the POS Regulations.

The Directors and the Proposed Directors of the Company, whose names appear on page 2 of this document, accept responsibility 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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## **KleenAir Systems International plc**

*(Incorporated in England and Wales under the Companies Act 1985 with registered number 5075088)*

### **Offer for subscription of up to 5,000,000 ordinary shares of 1p each at 30p per share to raise up to £1,500,000**

The Subscription Shares will rank in full for all dividends or other distributions hereafter declared, made or paid on the ordinary share capital of the Company and will rank *pari passu* in all respects with all other existing issued Ordinary Shares.

The share capital of KleenAir Systems International plc is not presently listed or dealt in on any recognised investment exchange and no application for admission of the share capital to such listing or dealing has been made.

Hoodless Brennan is regulated in the United Kingdom by the Financial Services Authority and is acting *exclusively for the Company and no-one else in connection with the Subscription*. Hoodless Brennan will not regard any other person as its customer nor be responsible to any other person for providing the protections afforded to customers of Hoodless Brennan nor for providing advice in relation to the transactions and arrangements detailed in this document.

Copies of this document will be available free of charge during normal business hours on any weekday (except Saturdays, Sundays and public holidays) at the offices of Hoodless Brennan, 40 Marsh Wall, London E14 9TP from the date of this document until the closing date of the Subscription.



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## **DIRECTORS, SECRETARY AND ADVISERS**

Directors	<b>Lionel Simons</b> ( <i>Executive Chairman</i> ) <b>Tony William Edwin Downes MBE</b> ( <i>Non-Executive Director</i> ) <b>Peter Monk Newell</b> ( <i>Non-Executive Director</i> ) <b>Anthony Mervyn Rentoul</b> ( <i>Non-Executive Director</i> )
Proposed Directors	<b>Philip Michael Keane FCA</b> <b>Michael Thomas Bieder Holmes</b>
Registered Office	Churchill House Chalvey Road East Slough SL1 2LS
Company Secretary	<b>Philip Michael Keane FCA</b>
Financial Adviser to the Company	<b>Hoodless Brennan &amp; Partners Plc</b> 40 Marsh Wall London E14 9TP
Auditors	<b>Grant Thornton UK LLP</b> Churchill House Chalvey Road East Slough SL1 2LS
Reporting Accountants	<b>Grant Thornton UK LLP</b> Grant Thornton House Melton Street Euston Square London NW1 2EP
Solicitors to the Company	<b>Dechert LLP</b> 2 Serjeants' Inn London EC4Y 1LT
Solicitors to the Subscription	<b>Rosenblatt</b> 9-13 St Andrew Street London EC4A 3AF

## DEFINITIONS AND GLOSSARY

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

"Act"	the Companies Act 1985 (as amended)
"ammonia"	a reducing agent for oxides of nitrogen (NOx)
"Application Form"	the application form accompanying this document for use in relation to the Subscription
"AQMA"	an air quality management area created by a local authority as required by the Environment Act
"Board"	the board of directors of the Company
"Business"	the business of the Group
"catalyst"	a compound which assists or promotes a chemical reaction
"Closing Date"	the last date for receipt of Application Forms, being 3 December 2004 or such later date as the Directors and Hoodless Brennan may determine, being not later than 31 December 2004
"CNG"	compressed natural gas
"Company" or "KSIP"	KleenAir Systems International plc
"DEFRA"	the Department for Environment, Food and Rural Affairs
"Dinex"	Dinex A/S, a company incorporated in Denmark
"Directors"	the directors of the Company, whose names are set out on page 3 of this document
"Environment Act"	the Environment Act 1995 (as amended)
"EST"	Energy Savings Trust, an agency of the Department for Transport which addresses issues of clean and efficient energy use by grant funding from its funding programmes
"Euro II"	the current European Union emission regulations as specified in directive 70/220/EEC and amended by directives 94/12/EC and 96/69/EC and implemented in the United Kingdom by virtue of the Road Vehicles (Construction & Use) (Amendment) (No. 5) Regulations 1995 (SI 1995/2210) and the Motor Vehicles (EC Type Approval) Regulations 1997 (SI 1997/191)
"Euro III"	the current European Union emission regulations as specified in directive 70/220/EEC and amended by directive 98/69/EC and implemented in the United Kingdom by virtue of the Motor Vehicles (EC Type Approval) (Amendment) Regulations 1999 (SI 1999/778)
"Euro IV"	the European Union emission regulations to apply from the end of 2005 as specified in the directive 70/220/EEC and amended by directives 98/69/EC and 02/80/EC and implemented in the United Kingdom by virtue of the Motor Vehicles (EC Type Approval) (Amendment) Regulations 2003 (SI 2003/1019)
"Euro V"	the proposed European Union emission regulations currently in draft form under reference COM/2003/0522 final COD 2003/0205 (COD)
"EU Standards"	Euro II, Euro III, Euro IV and Euro V, or any one or more of them as the context may require
"GLA"	Greater London Authority
"Group"	the Company and all or any of its subsidiaries
"Hoodless Brennan"	Hoodless Brennan & Partners Plc, 40 Marsh Wall, London E14 9TP

"KAIR"	KleenAir Systems, Inc., a company incorporated under the laws of the State of Nevada, USA
"KSL"	KleenAir Systems Limited, a company incorporated in England and Wales, being a subsidiary of the Company
"LEZ" or "Low Emission Zone"	the area within the M25 planned by the Mayor of London for reduced pollution, to come into effect in 2007
"London Stock Exchange"	London Stock Exchange plc
"LPG"	liquid petroleum gas
"Minimum Subscription"	the subscription at the Subscription Price for not less than 2,000,000 Subscription Shares pursuant to the Subscription
"NOx"	oxides of nitrogen which are formed during combustion
"NOxMaster <sup>®</sup> "	the Company's trademarked name for the patented process or system comprising the SCR for reduction of NOx
"OEM"	an original equipment manufacturer, being the manufacturer of new vehicles where the supplier's products are included in the item when shipped from the source
"Official List"	the Official List of the UK Listing Authority
"Ordinary Shares"	ordinary shares of 1p each in the share capital of the Company
"particulate filters"	after treatment devices which are fitted to diesel exhausts to trap particulates, sometimes called particulate traps
"particulates"	particles of diesel soot that vary in size being made up of carbon and absorbed hydrocarbons
"PCO"	the Public Carriage Office which is part of Transport for London's Surface Travel Directorate and is responsible for licensing the London taxi cabs and is also in the process of licensing private hire or 'mini-cab' services
"PM"	particulate matter otherwise referred to as particulates
"POS Regulations"	the Public Offers of Securities Regulations 1995 (as amended)
"Proposed Directors"	Philip Michael Keane and Michael Thomas Bieder Holmes
"Retrofit System"	a device or system incorporated for use in or on a vehicle after it has been purchased by the end user
"SCR"	selective catalytic reduction, being a process or system for reduction of NOx in hot combustion gases comprising an injection system for ammonia or an ammonia precursor (such as urea) and a catalyst bed
"SCRf"	SCR with a particulate filter attached
"Share Exchange Agreement"	the agreement dated 14 April 2004 between the Company and the persons named in the first schedule to the Share Exchange Agreement (the "Vendors") pursuant to which the Company acquired the entire issued share capital of KleenAir Systems International, Inc. in exchange for the allotment and issue to the Vendors of 19,998 ordinary shares of £5 each in the capital of the Company <i>pro rata</i> to their holdings in KleenAir Systems International, Inc.
"Shareholders"	holders of Ordinary Shares
"Subscription"	the conditional Subscription of the Subscription Shares pursuant to the terms and conditions set out in Part VI of this document and the Application Form
"Subscription Agreement"	the conditional agreement dated 20 October 2004 between Hoodless Brennan, the Company, Pollution Control Inc. and the Directors

	relating to the Subscription, further details of which are set out in paragraph 7 of Part V of this document
"Subscription Price"	30p per Subscription Share
"Subscription Shares"	up to 5,000,000 new Ordinary Shares to be allotted pursuant to the Subscription, such allotment being conditional upon completion of the Subscription
"TfL"	Transport for London, the integrated body responsible for London's transport system by implementing the Mayor's Transport Strategy for London
"UK" or "United Kingdom"	the United Kingdom of Great Britain and Northern Ireland
"UK Listing Authority"	the Financial Services Authority in its capacity as the competent authority for the purposes of Part VI of the Financial Services and Markets Act 2000
"urea"	a chemical that upon heating decomposes to ammonia and other species which are effective in reducing NOx in the SCR process

### **SUBSCRIPTION STATISTICS**

Subscription Price	30p
Number of Subscription Shares being offered on behalf of the Company	5,000,000
Estimated net proceeds of the Subscription receivable by the Company (on the basis of the maximum number of Subscription Shares being issued)	£1,160,000
Proportion of enlarged issued ordinary share capital being offered (on the basis of the maximum number of Subscription Shares being issued)	33.3 per cent.
Valuation of the Company at the Subscription Price (on the basis of the maximum number of Subscription Shares being issued)	£4,500,000

### **EXPECTED TIMETABLE OF PRINCIPAL EVENTS**

Publication of this Prospectus	20 October 2004
Final time and date for receipt of completed Application Forms with accompanying cheques or banker's drafts	3 December 2004
Despatch of definitive share certificates by	31 December 2004

## KEY INFORMATION

### Group objectives

- KleanAir Systems International plc (KSIP) aims to exploit patented, leading edge automotive pollution reduction technology in Europe and the Far East.
- KSL (KleanAir Systems Limited), a wholly owned subsidiary of KSIP, has proved the technology in independent tests, with UK government support, since 1999. The technology is now commercial and KSL expects to earn revenues from its sale in the UK during 2005.

### Market background

- There is increasing political and social pressure to improve air quality because of the damaging and costly effects of air pollution on public health.
- Automotive emissions are a dominant source of air pollution in urban areas.
- European and UK national air quality standards are being drastically tightened so as to reduce allowable emissions on all new diesel vehicles.
- London is taking a lead in the UK in requiring all, not just new, vehicles to conform to EU Standards.

### Market opportunity

- KleanAir NOxMaster<sup>®</sup> technology has been proven to remove up to 70 per cent. of NOx, one of the most dangerous and intractable air pollutants.
- KSL, with its licensee Dinex, has combined its NOx technology with a particulate filter, which provides a PM (particulates) reduction of up to 90 per cent. This combination will enable the majority of existing diesel vehicles to meet all European emission standards expected to be in force by 2008.
- KSL and Dinex will focus during the next three years on retrofitting either the NOxMaster<sup>®</sup> or their combined NOx/particulates system on light (taxis), medium (white vans) and heavy (buses and trucks) duty vehicles. The estimated market potential for retrofit upgrades in London alone over that period is approximately £3 billion.

### The patented technology

- KAIR's patented technology diffuses ammonia into a vehicle's exhaust system, close to the engine manifold. The ability of ammonia to reduce NOx has been proven in power stations. This concept has been adapted effectively by KAIR for use in automotive vehicles.
- This technology, which has been licensed to the Company, has been proven as to effectiveness and durability to the Energy Savings Trust (EST), an agency of the Department for Transport. It appears as a matter of public record, for several different vehicle categories, on the EST's Clean Up Register, which are therefore eligible for UK government grant funding.

### Routes to market

- KSL has licensed its technology to Dinex, a market leader in the European automotive aftermarket, with manufacturing facilities in Denmark and Latvia, and European wide distribution capability.
- KSL has entered into a supply agreement with Dinex allowing KSL to purchase the combined NOx/particulates system and to sell it into market segments not currently being addressed by Dinex.

### Competition

- The Company believes that it offers the most cost effective NOx reduction and NOx/particulates reduction retrofit systems currently available. Alternative technologies include LPG, Exhaust Gas Recirculation systems (EGR) and urea based ammonia systems. The directors believe that these are all either more expensive to install than the Company's systems, less effective or both.

### Use of Proceeds

- The directors intend to use the net proceeds of the Subscription to provide ongoing working capital for the Group. The working capital will support sales activity planned for those markets in which Dinex is not active and assist in developing a technical infrastructure for applications engineering.



## PART I

### INFORMATION ON THE GROUP

#### INTRODUCTION

The reduction of automotive emissions such as nitrogen oxides is becoming an increasingly important political and social issue. Nearly half of all harmful emissions in the atmosphere are created by automotive vehicles.

Of the various harmful emissions produced by automotive vehicles, nitrogen oxides (which come in different chemical forms, but which are generically referred to as NOx) are one of the most difficult exhaust pollutants to control. They play a significant part in regional air pollution throughout the UK and the problems associated with such pollution, such as smog, acid deposition and the greenhouse effect.

Throughout Europe there is increasing regulatory pressure to reduce NOx emissions. Regulation will create both a retrofit market for the fitting of new emissions control systems to existing diesel vehicles and a new diesel car market in which OEMs will install emissions control systems on their new vehicles. However, few technologies are available which reduce these emissions to the levels required by current and future legislation. In consequence, the directors anticipate substantial growth during the next five years in the market for those emerging emissions technologies which are the most cost effective.

KSIP has been set up to exploit the patented NoxMaster<sup>™</sup> technology in order to meet the growing demand for lower NOx emissions levels for diesel automotive engines.

An additional benefit of the Company's technology is that it reduces CO<sup>2</sup> emissions by up to 10 per cent. This is close to the target reduction required under the Kyoto protocol.

KSIP has licensed the technology from KAIR (KleenAir Systems Inc.) for development and marketing with respect to diesel engines in all territories outside North America. For gasoline and alternative fuel engines the territory comprises the continents of Europe and Africa, the Middle East and the former Soviet Union. The technology has been extensively tested and has a proven ability to reduce NOx emissions by up to 70 per cent. It diffuses ammonia in the exhaust system, together with a catalyst, to react with the harmful oxides of nitrogen to produce harmless nitrogen and water. The system has been designed so as to be easily fitted to vehicles by simply replacing the exhaust system and installing the electronics and piping.

The Group has no plans to manufacture the NOxMaster<sup>™</sup> itself but will be working closely with a non-exclusive licensee, Dinex (Dinex A/S), as its European systems integrator. Dinex is a market leader in the European exhaust systems aftermarket. It has manufacturing facilities in Denmark and Latvia and Europe-wide marketing and distribution capability. It has effectively "packaged" KleenAir's NOxMaster<sup>™</sup> system and has engineered a commercially available combined NOx/particulates reduction system using NOxMaster<sup>™</sup> technology known as the Dinox<sup>™</sup>.

Dinex currently supplies the retrofit market for light, medium and heavy duty diesel vehicles with the NOxMaster<sup>™</sup> and Dinox<sup>™</sup> systems and will seek to gain significant market share in these sectors. In addition KSL has entered into a supply agreement with Dinex which enables KSL to sell the NOxMaster<sup>™</sup> and the Dinox<sup>™</sup> into key market sectors not being addressed by Dinex. The Group's revenue will therefore comprise licence fee income from Dinex and other licencees and trading income from the supply by the Group of the systems to its own customers. Further details of the arrangements with Dinex are set out in paragraph 7 of Part V of this document.

#### LEGISLATIVE ENVIRONMENT

The introduction of global automotive emissions legislation is the principal reason for the growth in sales of emissions-reducing products and technologies. Regulations relating to automotive emissions first became law in the European Union in 1993. Emissions and emissions standards in the UK are regulated by the EU and by national and local government.

##### *European legislation*

A series of EU emission standards has been approved which apply generally to new vehicle production. The current standard in force is Euro III. Euro IV standards, which are already approved, will apply from the beginning of 2005. As a result of Euro IV standards, the directors believe that SCR will be one of the NOx abatement technologies of choice for heavy duty vehicles which, as configured for Euro III, will no longer be Euro compliant.

Euro V standards, now ratified for heavy duty vehicles, will come into force in 2008. These standards are likely to require the use of SCR technology for NOx reduction for both heavy and the majority of medium duty size vehicles because advances in diesel engine technology alone will no longer be sufficient. Until now diesel engine manufacturers have been able to achieve emissions reduction through advances in cylinder control. Now, however, they are adopting a strategy to remove toxic substances from the exhaust gases.

#### *UK legislation*

Professor Mike Pilling, head of DEFRA's air quality expert group presented research on 7 September 2004 to the British Association for the Advancement of Science indicating that the UK will fail to meet key objectives on reducing air pollution which is linked to thousands of deaths every year. The directors believe that this situation presents marketing opportunities to the Company as the UK government tries to recover the situation in the coming years.

Pursuant to powers granted under section 80 of the Environment Act and the requirements of the Greater London Authority Act 1999, in his campaign for re-election in 2004 and subsequent to his re-election on 10 June 2004, the Mayor of London committed the GLA to the creation of a Low Emission Zone (LEZ) to be implemented by 2007. And in a press release dated 23 August 2004, TfL announced that it "is preparing for implementing a Low Emission Zone in London".

All diesel powered heavy goods vehicles operating within the LEZ will be required to meet Euro II standards by 2007, light commercial vehicles Euro III by 2010. The creation of the LEZ is of importance to the success of the Group. It is expected that further cities will follow London's lead in the introduction of LEZs. Should they do so, then for practical purposes all UK commercial vehicles will need to be Euro III compliant.

#### *Local authority legislation*

Local authorities play a key role in the regulation of emissions and emissions standards in the UK. In high polluting areas they are required by the Environment Act to create AQMAs (Air Quality Management Areas) to focus on monitoring and reducing pollution locally. There are currently over 125 AQMAs throughout the country of which 27 are in London.

The introduction of AQMAs is beginning to have a significant influence on business and the automotive emissions industry in particular. The Mayor of London's air quality strategy announced in September 2002 outlines 33 proposals relating to London borough AQMA action plans. Each AQMA will achieve its targeted emissions levels only by committing its own and contracted vehicles to emissions reduction technology and by using its influence with businesses in its local area to do likewise.

To facilitate the work of local authorities, it is expected that the Department for Transport will shortly issue regulations to enable local authorities to determine which of the Euro standards for buses and other forms of transport should apply within their areas. These are intended to be enforced through requirements included in contracts with private suppliers of transportation services.

### **THE MARKET OPPORTUNITY**

Due to the legislative environment, the retrofit portion of the European diesel emissions control market has a potential in excess of £50 billion. This figure reflects the numbers of medium and heavy duty vehicles expected to be on the road at the end of 2007 and the cost of making them Euro II (heavy duty) or Euro III (medium duty) compliant. It is not expected that all these vehicles will be required to be Euro II or Euro III compliant, but the developing regulatory pressure indicates the potential for suppliers of emission control equipment that could develop.

There are still almost 1.5 million heavy goods vehicles and over 11 million light commercial vehicles which are, respectively not Euro II or Euro III compliant on the roads of Europe which are causing significant air pollution and which are of great concern to regulators. It is key segments of this retrofit diesel market which will be addressed specifically by the Company in the next three to five years.

#### **UK**

In the UK, the tightening of air quality regulations will lead to significant demand for emission control systems.

### *Taxis*

In London there are approximately 17,500 taxi cabs which do not meet the Euro III standard of nitrogen oxide emissions and particulates. The PCO indicated on 27 July 2004, in a draft emissions strategy document, that it is likely to require that all such taxis must meet the Euro III standard within a three year period commencing on 1 April 2005. There are also approximately 17,500 black cabs outside London which do not meet Euro III and therefore provide a market opportunity in the event that other local authorities follow the lead of the PCO.

### *Buses*

Dinex is currently fitting 70 London sightseeing buses with the Dinex<sup>®</sup> system which incorporates the Company's NOxMaster<sup>®</sup> system.

London buses are now required by Transport for London (TfL) to be fitted with particulate filters in order to reduce PM. TfL has indicated that it will test the Company's SCRF systems before deciding whether to require the fitting of SCR on to the majority of the fleet of approximately 6,000 buses that are already equipped with particulate filters.

The relevant local authorities in Cardiff, Crawley, Edinburgh, Leicester, Newcastle-upon-Tyne, North Tyneside and Norwich have each also expressed an intention to fit Dinex<sup>®</sup> SCRF systems for testing and evaluation. Each of these cities is an AQMA with a strong green agenda.

### *Light commercial vehicles*

There are more than 2,600,000 light commercial, diesel powered vehicles registered in the UK. The Company estimates that approximately 680,000 will need to be upgraded with emission reduction technologies in order to operate within the LEZ or replaced by new vehicles or rerouted. The conversion cost per vehicle is currently estimated at £4,000 which is likely to have to be borne by the vehicle owner.

An order (subject to agreement as to funding support) for 758 SCRF systems has been received by Dinex from Volkswagen for its LT light commercial vehicle range. These systems are expected to be fitted during the course of the next 6 months. This order shows the attraction of the system to a major OEM and is considered as an important breakthrough by the directors.

### *Heavy duty vehicles*

Of the 650,000 heavy-duty diesel-powered vehicles currently registered in the UK, the Company estimates that approximately 88,000 will need to be either upgraded with emission reduction technologies in order to operate within the LEZ or replaced by new vehicles or rerouted. The conversion cost per vehicle is currently estimated at £8,000 which is likely to have to be borne by the vehicle owner.

### *Local authority vehicles*

Members of the Association of Local Governments have completed a survey of their vehicle fleet of some 14,000 vehicles with a view to a decision on the most cost effective emission reduction technologies that should be installed.

The Directors anticipate an escalation of local authorities and other large equipment users adopting the stand pioneered by BAA plc (the former British Airports Authority), in its contract purchasing criteria, of requiring its fleets to meet lower levels of emissions than is possible with the vehicles as they were originally built.

## **Europe**

The arrangements with Dinex referred to below position the Company to exploit the fact that the EU regulatory environment applies equally across Europe.

Dinex has a strong position in the European after market. It recently acquired Hildebrand Metallprodukte GmbH, one of the largest German exhaust systems suppliers, which, together with its own network in Germany, makes Dinex the leading supplier in the German aftermarket. As a result, the Company together with Dinex can compete vigorously for the NOx and NOx/particulates retrofit market in Germany, which is the largest automotive producer in the EU.

Dinex also has strong distribution networks in Scandinavia, France, Spain, Italy and Poland and manufacturing facilities in Denmark, Germany and Latvia. Initial target markets in Europe will depend on which market areas in the UK have been the easiest to penetrate.

### **Business strategy**

The Group's business strategy involves licensing its technology to ensure licence fee income and also supplying customers with product direct.

Manufacturing and distribution arrangements have therefore been concluded with Dinex, one of the largest suppliers of exhaust systems in the UK and European aftermarket. As the Company's European systems integrator, Dinex's factories in Denmark and Latvia purchase NOxMaster<sup>®</sup> components which they then assemble and package into a system ready for installation on customers' vehicles

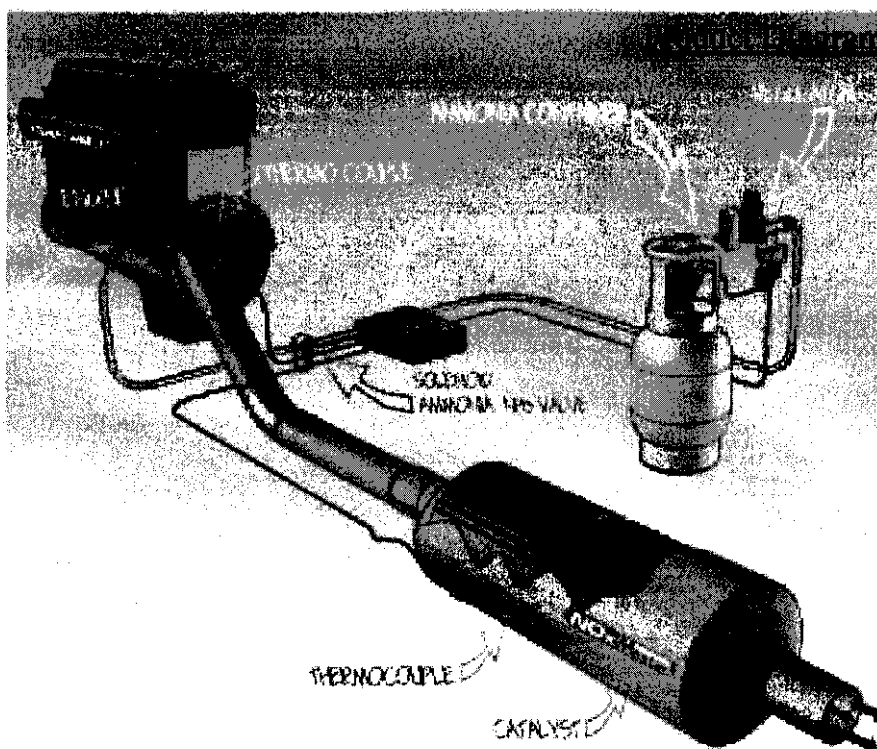
KSL and Dinex are currently targeting the automotive aftermarket or retrofit industry. This involves the sale of automotive products for use in or on a vehicle after it has been purchased by the end user. Selling to OEMs will be considered after the product has established itself in the field with large fleet operators.

The KSL and Dinex business will initially focus on retrofit systems for NOx and NOx/particulates for light, medium and heavy duty vehicles, commencing with London taxis, light commercial vehicle fleets and buses owned by or contracted to local authorities. The retrofit market is expected to provide significant opportunities for at least 5 years.

With the full support of the Company, Dinex has agreed arrangements for the supply and support of ammonia products with Terra Nitrogen Limited, the largest UK manufacturer of bulk ammonia products and Air Products plc one of the UK's largest ammonia distributors. This arrangement includes the training of installation operatives in the handling and storage of ammonia. ATS Euromaster Limited will be the primary agent for fitting and maintaining the system through its 540 branches throughout the UK.

### **The NOxMaster<sup>®</sup>**

## **NOxMaster SCR/SNCR NOx Control System**



The NoxMaster<sup>®</sup> has been shown to reduce NOx by up to 70 per cent. in virtually all categories of on-road vehicles with engine sizes between 2.5 and 10 litres. It does so by the diffusion of ammonia in the exhaust system close to the engine manifold and it achieves a further reaction in a purpose designed catalyst. The NoxMaster<sup>®</sup> has been designed so as to be easily fitted to vehicles by simply replacing the existing exhaust

system and installing the required electronics and piping. In a London taxi, for example, the process takes approximately one hour.

Ammonia is the most effective NOx reducing agent. It reacts more rapidly than hydrogen or carbon monoxide and, most importantly, and unlike hydrogen and carbon monoxide, is effective even in the presence of oxygen. The temperature range for effective reduction of NOx with ammonia is 400 to 600°C where NOx is reduced without the ammonia being oxidized. With a catalyst, the reduction temperature can be as low as 150°C.

The KleenAir approach is to utilize both the non-catalytic reaction that occurs at high temperatures and the catalytic reaction that occurs at lower temperatures. Extensive testing has confirmed this approach.

The NOxMaster<sup>®</sup> system uses a replaceable container for the gaseous ammonia which is released into the exhaust system by a metering valve or pulsed solenoid. The NOxMaster<sup>®</sup> introduces ammonia only when it is required and only in proportion to the NOx being formed. This is possible because NOx is formed during combustion in exponential proportion to the combustion temperature. It is only formed in any significant amount when the vehicle is under load such as when accelerating, going uphill or at high speed. By sensing a function of load as well as exhaust flow through a proprietary electronic controller, the NOxMaster<sup>®</sup> system provides the correct proportion of ammonia when needed and restricts the ammonia flow when no NOx is being formed.

### **INTELLECTUAL PROPERTY**

Original intellectual property, which forms the basis of the licensing agreement between KAIR and the Company, consists of US patents covering ammonia injection technology issued in 1993 (5224346), 1997 (5609026) and 1999 (5992141). These were followed by the issuance of patents in the UK, key manufacturing countries within the EU, Japan and Brazil.

The patents cover any technique for injection or diffusion of anhydrous ammonia into the exhaust system of a combustion engine used for automotive on-road or off-road, stationary and portable generators and marine engines.

The patents cover not only injection and diffusion but also the use of special computer algorithms that control the timing and quantity of ammonia injection to match the operating conditions and duty cycles of the engine or vehicle involved.

Patents have also been applied for by KAIR relating to the injection of ammonia dissolved in water, aqueous ammonia, similar to household cleaning fluid, which may have certain OEM applications.

### **COMPETITION**

At present, KSIP has the only SCR system suitable for retrofit for light and medium duty, as well as for heavy duty, diesel powered vehicles.

Alternative NOx reduction strategies for these vehicles include LPG (liquid petroleum gas) and CNG (compressed natural gas) engine conversions, which achieve good emission results (for both NOx and particulates) but are reliant on alternative fuel sources not often readily available. The directors believe that these conversions cost significantly more than the Dinex<sup>®</sup> SCRF system incorporating the Company's NOxMaster<sup>®</sup>.

Exhaust gas recirculation (EGR) is another relevant technology. The directors believe that this achieves a maximum NOx reduction of no more than 50 per cent. and that it is also significantly more expensive to install. As a result, it is, in the Company's view, considered more as an OEM than a retrofit option.

Another company is offering a heavy duty system combining particulate and NOx reduction for heavy duty diesel vehicles. Again, this system is believed to be significantly more expensive than the Company's and Dinex's SCRF system and to have been designed for the OEM rather than for the retrofit market.

Whilst the Company believes that the technologies cited above are those currently ready for market, it is possible that there may be competing technologies of which the Company is unaware. However, as there is no information in the public domain, such technologies are not currently in the forefront of testing and certification and would therefore be expected to take up to three years to bring to market.

### **RELATIONSHIP WITH KAIR**

The patents licensed to the Company are owned by KAIR which has been developing the NOx reduction technology in California since 1993.

On 16 April 1996 pursuant to a technology transfer and licensing agreement (which was subsequently extended) KAIR agreed to transfer to Lionel Simons, the chairman of KSIP and a director of KAIR, the non-North American diesel rights in the NOxMaster<sup>®</sup> technology and the rights relating to gasoline and alternative fuel engine rights into the continents of Europe, Africa, the Middle East and the former Soviet Union in exchange for both a 30 per cent. ownership in any company established by Mr Simons to exploit the technology and an 8 per cent. royalty on all revenues generated outside of North America. As a result, KAIR, which is publicly traded in the US on the OTC Bulletin Board, currently owns 30 per cent. of the issued share capital of the Company.

Companies owned by trustees of a trust of which Mr Simons is one of the discretionary beneficiaries currently retain a 50 per cent. interest in the Company.

The remaining 20 per cent. of the existing issued share capital of the Company is owned by directors of the Company other than Mr Simons and other parties who have provided services to the Company.

Assuming the Subscription is fully taken up, KAIR will own 20 per cent. of the enlarged issued ordinary share capital of the Company. Pollution Control Inc, a company owned by the trustees of a trust of which Lionel Simons is a discretionary beneficiary, holds 17.5 per cent. of KAIR's issued share capital.

On 20 October 2004, KAIR, KSIP and Lionel Simons entered into a relationship agreement pursuant to which KAIR and KSIP agree that any transactions, agreements or arrangements to be entered into between them will be at arm's length and on a normal commercial basis. In addition, Lionel Simons has undertaken to each of KAIR and the Company that he will not vote on agreements or arrangements proposed to be entered into between the Company (or any of its subsidiaries) and KAIR (or any of its subsidiaries).

## **TRADING RESULTS**

The Company's principal subsidiary, KSL, has been trading for three years and its audited results for the year ended 31 December 2003 show revenues of £201,650 and a loss of £30,167. The revenues were derived entirely from Dinex for the supply of test and evaluation units to potential customers. The directors do not at present expect significant revenue during 2004 and do not therefore expect the Company to be profitable during the current financial year. Further financial information on the Group is set out in Parts III and IV of this document.

## **CURRENT TRADING AND PROSPECTS**

Whilst the Group is not yet trading at a profit, it has made good progress in developing and promoting the NOxMaster<sup>®</sup> in its chosen markets. Given the current legislative environment and the expected further tightening of air quality legislation, the directors believe that the Company will start to exploit these markets effectively during the coming twelve months.

## **DIRECTORS AND PROPOSED DIRECTORS**

### *Directors*

#### ***Lionel Simons, Executive Chairman, aged 69***

Mr Simons attended the London School of Economics, where he earned his Bachelor of Science in Economics and was awarded one of seven Leverhume Scholarships. He received his Masters in Business Administration, majoring in International Business and Marketing, at the Columbia University Graduate School of Business in New York. While managing director of England's Denbyware Limited from 1970 to 1977, a manufacturing company with over 1,000 employees, he increased sales from £6 million to £14 million and took the company public on to the London Stock Exchange.

Mr Simons is currently, through companies owned by family trusts of which he is one of the discretionary beneficiaries, a 50 per cent. shareholder in the Company; he is also a director and major shareholder of KAIR.

#### ***Tony Downes, MBE, Non-Executive Director, aged 62***

Mr Downes was formerly managing director of Perkins Technology Limited, a unit of Varity Perkins Peterborough, the world's largest manufacturer of diesel engines, and now a unit of Caterpillar International, where he also served as group director of environmental engineering. He has been active on numerous professional organisations, including: chairman of the DTI's Consumer Technology Research Committee, chairman of the Society of Motor Manufacturers and Traders' Engine Technical Committee,

as a board member of the European Engine Manufacturers and as a board member of the Engine Manufacturing Association. He represented the UK Government on its Clean Vehicle Task Force and served as chairman of its Technology and Testing sub group. A chartered engineer, he is a Fellow of the Institute of Mechanical Engineers.

***Peter Newell, Non-Executive Director, aged 61***

Former managing director of Wolsey Hall Oxford Limited, England's oldest distance learning business, Mr Newell also served as president of Royal Worcester Spode Inc., the fine tableware company based in New York. He had previously worked for Denbyware Limited in the US, and established and served as president of Denbyware Canada Limited of Toronto. Denbyware is England's largest stoneware/tableware company.

***Anthony Rentoul, Non-Executive Director, aged 62***

A solicitor by profession (but no longer practising), Mr Rentoul previously served as the group secretary to Trident Television plc and, later, The Telegraph plc. He founded and served as chief executive of The Newspaper Licensing Agency, which now generates approximately £13 million per annum in royalties for licences to copy newspaper cuttings.

***Proposed Directors***

***Michael Holmes, aged 33***

After graduating with a double first from Oxford in 1995, Mr Holmes joined the Boston Consulting Group as an associate. In 1997 he was the founder of Opsys Limited of which he became CEO. That company is a recognised technology leader in the development of novel materials and thin film devices for use in electroluminescent displays. Having raised in excess of \$45 million to finance the company's development and growth, he sold the company in 2003.

Mr Holmes currently acts as a business and marketing consultant to the Company. It is envisaged that he will become CEO/MD of the Company in the event that it becomes a quoted company.

***Philip Keane FCA, aged 55***

Mr Keane qualified as a chartered accountant in 1970 and worked for Arthur Andersen & Co. He joined Heron Corporation PLC in 1976 as the finance director of the House Building Division and was later appointed to the main board with responsibilities for the film and video business activities in the UK and USA. He left Heron in 1986 to join Prestwich Holdings plc (a fully listed company) in 1987 where he was corporate finance director. He was a founding shareholder and director of Tring International Group PLC, a budget priced CD publisher.

Mr Keane currently acts as secretary and financial controller of the company and it is envisaged that he will become a director of the Company in the event that it becomes a quoted company.

**DIVIDEND POLICY**

The Board anticipates that, following the Subscription, cash resources will be retained for the development of the Group's business and will not be distributed for the foreseeable future.

**THE SUBSCRIPTION AND USE OF PROCEEDS**

The Company is proposing to raise up to £1,500,000 (before expenses) through the Subscription. The Company is inviting subscribers to subscribe for Subscription Shares on the terms set out in Part VI and the accompanying Application Form. The Subscription is conditional on the Minimum Subscription being raised by no later than 3 December 2004 (or such later date as the Directors and Hoodless Brennan may determine, being not later than 31 December 2004).

The Directors intend to use the net proceeds of the Subscription to provide ongoing working capital for the Group. The working capital will support both the Group's sales activity which is planned for those markets in which Dinex is not active and a developing technical infrastructure for applications engineering. In the event that the Minimum Subscription is reached but not exceeded the net proceeds will be used for sales and market development.

Hoodless Brennan has been engaged by the Company to use its reasonable endeavours to procure subscribers for the Subscription Shares. Hoodless Brennan will receive a commission of 10 per cent. on monies subscribed and a corporate finance fee of £10,000. The Subscription has not been underwritten.

In addition, in part consideration of its procuring Subscribers, in the event that between £600,000 and £900,000 is raised as a result of the subscription, the Company will grant Hoodless Brennan an option over an agreed percentage of the shares in issue in the Company as enlarged by the Offer for Subscription exercisable at the Subscription Price until the date which is three years after completion of the Offer for Subscription and such percentage shall be determined as follows: 2 per cent. if the amount raised is equal to or more than £600,000 (before expenses) but less than £900,000 (before expenses); 3 per cent. if the amount raised is equal to or more than £900,000 (before expenses) but less than £1,200,000 (before expenses); and 4 per cent. if the amount raised is equal to or more than £1,200,000 (before expenses).

#### **SHARE INCENTIVE SCHEME**

A key element of the Company's reward strategy, when it becomes a quoted company, will be the implementation of a share option plan which aligns the interests of shareholders with participants in the plan, as well as encouraging employee share ownership and facilitating the retention of key staff.

#### **TAXATION**

The Company has received provisional clearance from the Inland Revenue confirming that it should qualify for the taxation advantages offered under the Enterprise Investment Scheme.

General information relating to UK taxation with regard to the Subscription is summarised in paragraph 8 of Part V of this document. A Shareholder who is in any doubt as to his tax position, or is subject to tax in a jurisdiction other than the UK, should consult his or her professional advisers.

#### **GENERAL**

No temporary documents of title will be issued. All documents or remittances sent by or to a subscriber, or as they may direct, will be sent through the post at the subscriber's risk.

Pending the despatch of definitive share certificates, instruments of transfers will be certified against the register of members of the Company.

#### **FURTHER INFORMATION**

Your attention is drawn to the additional information set out in Parts II to VI of this document.



## **PART II**

### **RISK FACTORS**

**In addition to all other information set out in this document, the following specific factors should be considered carefully in evaluating whether to make an investment in the Company. The investment offered in this document may not be suitable for all of its recipients. If you are in any doubt about the action you should take, you should immediately consult an independent professional adviser duly authorised under the Financial Services and Markets Act 2000 who specialises in advising on the acquisition of shares and other securities.**

You should carefully consider the risks described below and ensure you have read this document in its entirety before making a decision to invest in the Company.

In addition to the usual risks associated with an investment in a business in an early stage of its development, the Directors consider the following risk factors to be most significant to potential investors and they should be carefully considered. It should be noted that this list is not intended to be exhaustive and that other risk factors may apply. Additional risks or uncertainties not presently known to the Company or that the Company currently consider immaterial may also impair its business operations. If any of the following risks or uncertainties (or indeed any other risk factors not specifically mentioned below) develops into actual events, the Company's business, financial condition or results of operations could be materially adversely affected. In such a case, the fair market value of the Ordinary Shares could decline and you may lose all or part of your investment.

#### **Unquoted shares**

Investments in unquoted shares carry higher risks than investments in quoted shares. Shares in the Company are not presently quoted on any market. Furthermore, as there is no liquid market in the Ordinary Shares, it may be difficult for investors to sell or realise their Ordinary Shares and to obtain reliable information about the value of the Ordinary Shares or the extent of risks to which the Ordinary Shares are exposed. The value of shares can go down as well as up and therefore, in the event that the investor is unable to find a buyer for his Ordinary Shares, the amount realised may be less than the original amount invested. There is no certainty that the value of the Ordinary Shares in the future will be higher than the Subscription Price.

#### **Reliance on management**

The further development of the Company is critically dependent upon its ability to attract and retain key management and employees and there can be no assurance that the Company will be able to attract and retain such persons.

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

There are circumstances in which an investor could cease to qualify for the taxation advantages offered by the Enterprise Investment Scheme ("EIS"). This could occur on the investor ceasing to be resident or ordinarily resident in the United Kingdom during the period of three years following the issue of the Ordinary Shares. In addition, the investor could cease to qualify for the relief if he receives value from the Company during the period beginning one year before the Ordinary Shares are issued and ending three years after. Payment of a reasonable dividend, however, would not be regarded as receipt of value.

If the Company ceases to carry on the business outlined in this document during its three year relevant period, this could prejudice the qualifying status of the Company under the EIS. This situation will be closely monitored with a view to preserving the Company's qualifying status but this cannot be guaranteed.

#### **Regulatory and licensing**

A significant proportion of anticipated future sales will come from PCO and TfL mandates for upgrading taxis and vehicles wishing to enter the proposed LEZ (inside the M25). A failure to receive these mandates would have a direct impact on the Company.

Furthermore, any delay or failure to implement the proposed LEZ would impact on the Company's projected revenues.

### **Reliance on Subscription**

It should be noted that the accountants' report on KleenAir Systems Limited in Part IV A makes it clear at paragraph 1.10 (and KleenAir Systems Limited's audited accounts to 31 December 2003 have been qualified accordingly) that in the event the Minimum Subscription is not received it is unlikely that KleenAir Systems Limited will be able to continue as a going concern.

### **The use of ammonia**

Upon the urging of the Verband der Automobilindustrie (VDA, the German motor manufacturing consortium), most European manufacturers have opted to introduce urea, rather than ammonia, based SCR systems to meet the Euro IV standard in 2006. It is possible therefore that urea based systems will become the standard for OEM production in Europe. Urea based technology requires urea to be dissolved in 60°F water before it can effectively create ammonia for injection. The Company believes in consequence that urea based systems will be more complex and costly than ammonia based systems to install and less attractive in consequence as a retrofit option.

While ammonia is a toxic substance, it has been successfully used for several decades in removing NO<sub>x</sub> from power station emissions. Indeed ammonia is now the standard treatment in the power industry. In vehicles, if anhydrous ammonia is used, the amount stored on board will vary depending upon the size of the vehicle; in light duty vehicles it will be around 7 litres. If aqueous ammonia, a chemical similar to household cleaning fluid, is used, the amount stored on board a vehicle will be greater, by virtue of the dilution of the ammonia. In either case the Company and Dinex have designed the systems for ammonia installation, operation and maintenance with critical safety devices built in so as virtually to eliminate any chance of leakage.

### **Reliance on Dinex contract**

During the next two years, the Company will be heavily reliant on the manufacturing and distribution arrangements with Dinex. It is the Company's intention, however, to develop its own marketing capability focusing on market areas not specifically addressed by Dinex and also to seek additional distribution channels. The Company may at some time in the future seek to licence manufacturing elsewhere in Europe so as not to be dependent on one source of supply. But the immediate priority is to provide Dinex full support in the achievement of technical excellence and the further development of the present system in the market place.

### **Lack of trading history**

With the exception of the sales in 2003 to Dinex, the Company has no trading history and is, in that respect, essentially a start up. This is mitigated in the short and medium term by the arrangements with Dinex which enabled the Group to outsource key aspects of manufacturing and distribution. The Company has no operating history upon which its performance and prospects can be evaluated and faces the risks frequently encountered by developing companies.

### **No guarantee of sales**

Whilst orders have been received and the signs for a good level of business are propitious there is no guarantee that the Group will generate any specific level of sales in 2005 or beyond.

### **Intellectual Property**

High technology industries are characterised by rigorous protection and pursuit of intellectual property rights, resulting in significant and often protracted and expensive litigation. Whilst no such claims are currently envisaged, the Company or KAIR or KleenAir Systems Limited may from time to time be notified of claims that they may be infringing third party patents or other intellectual property rights. Litigation could result in a significant expense, adversely affect sales of the challenged product or technology and divert the efforts of technical and management personnel. In the event of an adverse outcome in any such litigation, damages may be payable and, in addition, there may be a request to cease manufacture, use or sale of infringing products, discontinue use of some processes or obtain licences to use the intellectual property in the infringing technology and revenues from Dinex would be adversely affected.

### **Future flotation**

Whilst it is the Company's intention to seek a listing on a stock exchange in the future, there can be no guarantee as to when (or indeed if) such flotation will actually occur.

**Additional working capital requirements**

The Group may in the future need to seek alternative sources of funding to carry out its growth and operating plans. There can be no assurance that the Group will be able to raise such funds within an acceptable time or at all. If further financing is obtained by issuing equity securities, the existing shareholders may be diluted and the new securities may carry superior rights, privileges or preferences.


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

## **PART III**

### **ACCOUNTANTS' REPORT ON THE COMPANY**

Set out below is the text of a report from Grant Thornton UK LLP, registered auditors, chartered accountants and reporting accountants:

The Directors  
KleenAir Systems International plc  
Churchill House  
Chalvey Road East  
Slough  
SL1 2LS

**Grant Thornton**   
Grant Thornton UK LLP  
Grant Thornton House  
Melton Street  
Euston Square  
LONDON  
NW1 2EP

20 October 2004

Dear Sirs

#### **KLEENAIR SYSTEMS INTERNATIONAL PLC (THE COMPANY)**

##### **1. INTRODUCTION**

We report on the financial information set out below. This financial information has been prepared for inclusion in the Prospectus of the Company dated today ("the Prospectus").

##### **1.1 Basis of preparation**

The financial information set out below is based on the transactions of the Company from incorporation on 16 March 2004 to 20 October 2004, being the date of this report.

##### **1.2 Responsibility**

The directors of KleenAir Systems International plc are responsible for the contents of the Prospectus in which this report is included.

It is our responsibility to form an opinion on the financial information and to report our opinion to you.

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

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

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

##### **1.4 Opinion**

In our opinion the financial information gives, for the purposes of the Prospectus dated 20 October 2004, a true and fair view of the state of affairs of the Company at 20 October 2004.

##### **1.5 Consent**

We consent to the inclusion in the Document of this report and accept responsibility for this report for the purposes of paragraph 45(8)(b) of Schedule 1 to the Public Offers of Securities Regulations 1995.

##### **2. FINANCIAL INFORMATION**

The Company has not completed its first accounting period. No statutory financial statements have been prepared, audited or filed since incorporation.

The Company was incorporated on 16 March 2004 with the name KleenAir Systems International plc.

As at 20 October 2004 the Company has carried out no trading, has declared no dividends and with the exception of the issue of shares and the share exchange described below, has not entered into any other transactions which impact on the Company's financial position at 20 October 2004.

On incorporation the authorised share capital of the Company was £100,000 comprising 100,000 ordinary £ shares, of which 2 ordinary £1 shares were issued at par to the subscribers for cash.

On 13 April the Company issued 8 ordinary £1 shares at par for cash.

On 14 April 2004 the 100,000 authorised ordinary £1 shares were consolidated into 20,000 ordinary £5 shares, and the authorised share capital of the Company was increased to £250,000 by the creation of an additional 30,000 ordinary £5 shares.

On 14 April 2004 the Company acquired the entire issued share capital of KleenAir Systems International Inc. a company incorporated in the Bahamas, in exchange for the allotment and issue of 19,998 ordinary £5 shares in the Company.

On 5 October 2004 the 50,000 authorised ordinary £5 shares were sub-divided into 25,000,000 ordinary 1p shares.

As at 20 October 2004 the Company's share capital was as follows:

Authorised:	25,000,000 ordinary 1p shares	£250,000
Issued, allotted and fully paid up	10,000,000 ordinary 1p shares	£100,000

The Company has not entered into any material contracts at the date of this report other than those at paragraph 7 of Part V of the Prospectus.

Yours faithfully

GRANT THORNTON UK LLP

## PART IV A

### ACCOUNTANTS' REPORT ON KLEENAIR SYSTEMS LIMITED

Set out below is the text of a report from Grant Thornton UK LLP, registered auditors, chartered accountants and reporting accountants:

The Directors  
KleenAir Systems International plc  
Churchill House  
Chalvey Road East  
Slough  
SL1 2LS

**Grant Thornton** 

Grant Thornton UK LLP  
Grant Thornton House  
Melton Street  
Euston Square  
LONDON NW1 2EP

20 October 2004

Dear Sirs

### KLEENAIR SYSTEMS LIMITED (THE "COMPANY")

#### 1. INTRODUCTION

- 1.1 We report on the financial information set out in paragraphs 3 to 7. This financial information has been prepared for inclusion in the prospectus dated 20 October 2004 of KleenAir Systems International plc (the "Prospectus").

#### Basis of preparation

- 1.2 The financial information set out in paragraphs 3 to 7 below is based on the audited financial statements of the Company for the year ended 31 December 2003 and the unaudited financial statements of the Company for the two years ended 31 January 2002, and the 11 month period ended 31 December 2002.
- 1.3 The financial information has been prepared on the basis set out in section 3 to which no adjustments were considered necessary.

#### Responsibility

- 1.4 Such financial statements are the responsibility of the directors of the Company who approved their issue.
- 1.5 The directors of KleenAir Systems International plc are responsible for the contents of the Prospectus dated 20 October 2004 in which this report is included.
- 1.6 It is our responsibility to compile the financial information set out in our report, to form an opinion on the financial information and to report our opinion to you.

#### Basis of opinion

- 1.7 We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. The evidence included that previously obtained by us relating to the audit of the financial statements underlying the financial information.
- 1.8 Our work also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial statements underlying the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.
- 1.9 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**

- 1.10 The financial information has been prepared on the basis that the Company continues as a going concern. This basis is dependent upon KleenAir Systems International plc, the Company's ultimate parent undertaking, receiving the Minimum Subscription (as defined in the Prospectus), and continuing to support the Company. In the event that the Minimum Subscription were not received it is unlikely that the Company would be able to continue as a going concern. In this event adjustments would have to be made to reduce the value of the assets to their recoverable amount and to provide for any liabilities which might arise.
- 1.11 Subject to the receipt of the Minimum Subscription, in our opinion the financial information gives, for the purposes of the Prospectus dated 20 October 2004, a true and fair view of the results and cash flows of the Company for the two years ended 31 January 2002, 11 month period ended 31 December 2002 and the year ended 31 December 2003 and the state of affairs of the Company at the end of each of those periods.

## **Consent**

- 1.12 We consent to the inclusion in the Prospectus dated 20 October 2004 of this report and accept responsibility for this report for the purposes of paragraph 45(1)(b)(iii) of Schedule 1 to the Public Offers of Securities Regulations 1995.

## **2. STATUTORY INFORMATION**

- 2.1 The Company was incorporated on 22 January 1997 as Open Market Pension Options Limited. On 10 May 1999, the Company changed its name to Noxmaster Limited. It began to trade during October 2000.
- 2.2 On 31 July 2002, the Company changed its name to KleenAir Systems Limited.

## **3. BASIS OF PREPARATION**

### **Accounting convention**

- 3.1 The financial information has been prepared under the historical cost convention, and in accordance with applicable accounting standards. The principal accounting policies of the Company have remained unchanged throughout the two years ended 31 January 2002, 11 month period ended 31 December 2002 and the year ended 31 December 2003 and are set out below.

### **Turnover**

- 3.2 Turnover represents the total invoice value, excluding value added tax, of sales made during the period.

### **Research and development**

- 3.3 Research and development expenditure is written off to the profit and loss account in the year in which it is incurred.

### **Depreciation**

- 3.4 Depreciation is provided at rates calculated to write off the cost less residual value of each asset over its expected useful economic life, as follows:

Motor Vehicles — 25% straight line

### **Deferred taxation**

- 3.5 Provision is made for deferred taxation using the liability method to take account of timing differences between the incidence of income and expenditure for taxation and accounting purposes except to the extent that the directors consider that a liability to taxation is unlikely to materialise.

### **Government grants**

- 3.6 Grants are credited to deferred revenue. Grants towards capital expenditure are released to the profit and loss account over the expected useful life of the assets. Grants towards revenue expenditure are released to the profit and loss account as the related expenditure is incurred.

## Foreign exchange

3.7 Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet dates. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Exchange differences are taken into account in arriving at the operating profit.

## 4. PROFIT AND LOSS ACCOUNTS

		<i>Year ended 31 January 2001 £'000</i>	<i>Year ended 31 January 2002 £'000</i>	<i>11 months to 31 December 2002 £'000</i>	<i>Year ended 31 December 2003 £'000</i>
	<i>Note</i>				
<b>Turnover</b>	7.1	—	—	—	202
Cost of sales		—	—	—	(174)
Gross profit		—	—	—	28
Administrative expenses		(43)	(22)	(45)	(58)
Other operating income		42	20	30	—
<b>Operating loss and loss on ordinary activities before taxation</b>	7.1	(1)	(2)	(15)	(30)
Tax on loss on ordinary activities	7.2	—	—	—	—
<b>Loss on ordinary activities after taxation and transferred from reserves</b>	7.7	(1)	(2)	(15)	(30)

All of the activities of the Company are classed as continuing.

## 5. BALANCE SHEETS

		<i>As at 31 January 2001 £'000</i>	<i>As at 31 January 2002 £'000</i>	<i>As at 31 December 2002 £'000</i>	<i>As at 31 December 2003 £'000</i>
	<i>Note</i>				
<b>Fixed assets</b>					
Tangible assets	7.3	—	—	—	6
<b>Current assets</b>					
Debtors	7.4	1	1	6	8
Cash at bank and in hand		29	12	7	1
		30	13	13	9
<b>Creditors: amounts falling due within one year</b>	7.5	(31)	(16)	(31)	(63)
<b>Net current liabilities</b>		(1)	(3)	(18)	(54)
		(1)	(3)	(18)	(48)
<b>Capital and reserves</b>					
Called up share capital	7.6	—	—	—	—
Profit and loss account	7.7	(1)	(3)	(18)	(48)
<b>Shareholders' funds</b>	7.7	(1)	(3)	(18)	(48)



## 6. CASH FLOW STATEMENTS

		Year ended 31 January 2001 £'000	Year ended 31 January 2002 £'000	11 months to 31 December 2002 £'000	Year ended 31 December 2003 £'000
	Note				
<b>Net cash inflow/(outflow) from operating activities</b>	7.8	29	(17)	(5)	1
<b>Capital expenditure</b>					
Purchase of tangible fixed assets		—	—	—	—
<b>Net cash outflow from capital expenditure</b>		—	—	—	(7)
<b>Increase/(decrease) in cash</b>	7.9	29	(17)	(5)	(6)

## 7. NOTES TO THE FINANCIAL INFORMATION

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

The turnover and loss on ordinary activities before taxation is attributable to the one principal activity of the Company.

The loss on ordinary activities before taxation is stated after:

	Year ended 31 January 2001 £'000	Year ended 31 January 2002 £'000	11 months to 31 December 2002 £'000	Year ended 31 December 2003 £'000
Research and development	42	20	44	22
Auditors' remuneration:				
Audit Services	—	—	—	6
Depreciation, tangible fixed assets owned	—	—	—	1
Other operating income:				
Government grants	(42)	(20)	(30)	—

### 7.2 Tax on loss on ordinary activities

Unrelieved tax losses of £47,000 remain available to offset against future taxable trading profits.

### 7.3 Tangible fixed assets

	Motor vehicles £'000	Total £'000
<b>Cost</b>		
Additions and at 31 December 2003	7	7
<b>Depreciation</b>		
Provided in the year and at 31 December 2003	1	1
<b>Net book amounts</b>		
At 31 December 2003	6	6

#### 7.4 Debtors

	As at 31 January 2001 £'000	As at 31 January 2002 £'000	As at 31 December 2002 £'000	As at 31 December 2003 £'000
Other debtors	1	1	6	1
Accrued income	—	—	—	7
	<u>1</u>	<u>1</u>	<u>6</u>	<u>8</u>

#### 7.5 Creditors: amounts falling due within one year

	As at 31 January 2001 £'000	As at 31 January 2002 £'000	As at 31 December 2002 £'000	As at 31 December 2003 £'000
Trade creditors	17	—	—	—
Amounts owed to group undertakings	—	—	31	61
Accruals and deferred income	14	16	—	2
	<u>31</u>	<u>16</u>	<u>31</u>	<u>63</u>

#### 7.6 Share capital

	As at 31 January 2001 £'000	As at 31 January 2002 £'000	As at 31 December 2002 £'000	As at 31 December 2003 £'000
Authorised 100,000 ordinary shares of £1 each	100	100	100	100
Allotted, called up and fully paid 20 ordinary shares of £1 each	—	—	—	—

#### 7.7 Reconciliation of movements in shareholders' funds

	As at 31 January 2001 £'000	As at 31 January 2002 £'000	As at 31 December 2002 £'000	As at 31 December 2003 £'000
Loss for the financial period	(1)	(2)	(15)	(30)
Shareholders' funds at the beginning of the period	—	(1)	(3)	(18)
Shareholders' funds at the end of the period	<u>(1)</u>	<u>(3)</u>	<u>(18)</u>	<u>(48)</u>

#### 7.8 Net cash inflow/(outflow) from operating activities

	Year ended 31 January 2001 £'000	Year ended 31 January 2002 £'000	11 months to 31 December 2002 £'000	Year ended 31 December 2003 £'000
Operating loss	(1)	(2)	(15)	(30)
Depreciation	—	—	—	1
Increase in debtors	(1)	—	(5)	(2)
Increase/(decrease) in creditors	31	(15)	15	32
Net cash inflow/(outflow) from operating activities	<u>29</u>	<u>(17)</u>	<u>(5)</u>	<u>1</u>

## 7.9 Reconciliation of net cash flow to movement in net funds

	<i>Year ended</i> 31 January 2001	<i>Year ended</i> 31 January 2002	<i>11 months to</i> 31 December 2002	<i>Year ended</i> 31 December 2003
	£'000	£'000	£'000	£'000
Increase/(decrease) in cash in the period	29	(17)	(5)	(6)
Opening net funds	—	29	12	7
Closing net funds	29	12	7	1

## 7.10 Analysis of changes in net funds

	<i>Year ended</i> 31 January 2001	<i>Year ended</i> 31 January 2002	<i>11 months to</i> 31 December 2002	<i>Year ended</i> 31 December 2003
	£'000	£'000	£'000	£'000
Opening net cash in hand and at bank	—	29	12	7
Cashflow	29	(17)	(5)	(6)
Closing net cash in hand and at bank	29	12	7	1

## 7.11 Capital commitments

The Company had no capital commitments at 31 January 2001, 31 January 2002, 31 December 2002 or at 31 December 2003.

## 7.12 Contingent assets/liabilities

There were no contingent liabilities at 31 January 2001, 31 January 2002, 31 December 2002 or at 31 December 2003.

## 7.13 Related party transactions

During the year ended 31 December 2003 the Company purchased goods and services amounting to £155,000 (11 months ended 31 December 2002: £Nil; Year ended 31 January 2002: £20,000; Year ended 31 January 2001: £24,000) from KleenAir Systems International Inc., the Company's immediate parent undertaking. As at 31 December 2003 an amount of £27,000 was owed to KleenAir Systems International Inc.

During the year ended 31 December 2003, consultancy fees of £20,000 (11 months ended 31 December 2002: £14,000) were paid to Osney Consulting Limited, a company in which Mr P M Newell, a director, holds a controlling interest.

During the year ended 31 December 2003 the Company purchased goods and services amounting to £4,000 from KleenAir Systems Inc. a company in which Mr L Simons, a director, is an officer and has an interest in. During the 11 months ended 31 December 2002 the Company received a loan of £30,000 from KleenAir Systems Inc. As at 31 December 2003 an amount of £34,000 was owing to KleenAir Systems Inc. (At 31 December 2002: £30,000).

There were no other related party transactions.

Yours faithfully

GRANT THORNTON UK LLP

## PART IV B

### UNAUDITED INTERIM FINANCIAL INFORMATION ON KLEENAIR SYSTEMS LIMITED FOR THE SIX MONTHS ENDED 30 JUNE 2004

#### 1. INTRODUCTION

The unaudited interim financial information presented below has been extracted without material adjustment from the unaudited management accounts of KleenAir Systems Limited for the six months ended 30 June 2004.

The unaudited management accounts for the six months ended 30 June 2004 have been prepared in accordance with applicable law and the accounting policies normally adopted by KleenAir Systems Limited in the preparation of its statutory accounts.

The Directors of KleenAir Systems International plc consent to the inclusion in the Prospectus dated 20 October 2004 of this financial information and accept responsibility for this financial information for the purposes of paragraph 10(b) of Schedule 45(1) of Part VII to the Public Offers of Securities Regulations 1995.

#### 2. BASIS OF PREPARATION

The unaudited interim financial information has been prepared in accordance with applicable law and United Kingdom accounting standards and under the historical cost convention. The principal accounting policies of KleenAir Systems Limited have remained unchanged from those set out in section 3 of the accountants' report of KleenAir Systems Limited as presented in Part IV A of this document.

The financial information set out below does not constitute statutory accounts as defined in section 240 of the Companies Act 1985.

#### Profit and Loss Account

		6 months ended 30 June 2004 £'000
Turnover	Note	—
Cost of sales		—
Gross Profit		—
Other operating charges	1	104
<b>Operating Loss</b>	2	(104)
Interest receivable		—
Interest payable		—
<b>Loss on ordinary activities before taxation</b>		(104)
Tax on loss on ordinary activities		—
Loss for the financial period		(104)
Balance brought forward		(48)
Balance carried forward		(152)

All of the activities of the company are classed as continuing.

The company has no recognised gains or losses other than the results for the period as set out above.

## Balance Sheet

		As at 30 June 2004 £'000
	Note	
<b>Fixed assets</b>		
Tangible assets	3	—
		—
<b>Current assets</b>		
Debtors	4	12
Cash at bank		6
		18
<b>Creditors: amounts falling due within one year</b>	5	(170)
<b>Net current liabilities</b>		(152)
<b>Total assets less current liabilities</b>		(152)
<b>Capital and reserves</b>		
Called-up equity share capital		—
Profit and loss account	7	(152)
		(152)

## NOTES ON THE UNAUDITED FINANCIAL INFORMATION

### 1. Other operating income and charges

	6 months ended 30 June 2004 £'000
Administrative expenses	104

### 2. Operating loss

Operating loss is stated after charging:

	6 months ended 30 June 2004 £'000
Auditors remuneration	4

### 3. Tangible fixed assets

	Motor Vehicles £'000
<b>Cost</b>	
At 1 January 2004	7
Disposals	(7)
At 30 June 2004	—
<b>Depreciation</b>	
At 1 January 2004	1
On disposals	(1)
At 30 June 2004	—
<b>Net book value</b>	
At 30 June 2004	—
At 31 December 2003	6

**4. Debtors**

	<i>As at 30 June 2004 £'000</i>
Other debtors	6
Prepayments and accrued income	6
	<hr/>
	12
	<hr/>

**5. Creditors: amounts falling due within one year**

	<i>As at 30 June 2004 £'000</i>
Trade creditors	52
Amounts owed to group undertakings	114
Other creditors	4
	<hr/>
	170
	<hr/>

## PART V

### ADDITIONAL INFORMATION

#### 1. Incorporation

- 1.1 The Company was incorporated and registered in England and Wales under the Act on 16 March 2004 with registered number 5075088 as a public company with limited liability under the Act. On 17 March 2004 the Company was granted a certificate of entitlement to do business and borrow under section 117 of the Act.
- 1.2 The principal legislation under which the Company operates is the Act. The liability of the Company's members is limited.
- 1.3 The principal activity of the Company is that of a holding Company.

#### 2. Share Capital

- 2.1 The Company was incorporated with an authorised share capital of £100,000 represented by 100,000 ordinary shares of £1 each of which two were issued to the subscribers.
- 2.2 On 16 March 2004, 49,998 ordinary shares of £1 each in the capital of the Company were applied for by Lionel Simons against his irrevocable undertaking to pay up a quarter of the amount of their nominal value in consideration for the Company's agreement to include his name in the register of members at his request at any time prior to the execution of the Share Exchange Agreement. After the execution of the Share Exchange Agreement, in accordance with the terms of the undertaking the allotment to Lionel Simons referred to in this paragraph 2.2 was cancelled.
- 2.3 On 14 April 2004, by written resolutions of the Company, the 100,000 ordinary shares of £1 each in the capital of the Company were consolidated into 20,000 ordinary shares of £5 each in the capital of the Company and the authorised share capital of the Company was increased from £100,000 to £250,000 by the creation of an additional 30,000 ordinary shares of £5 each in the capital of the Company.
- 2.4 On 14 April 2004, the Company entered into the Share Exchange Agreement with the persons named in the first schedule to the Share Exchange Agreement (the "Vendors") pursuant to which the Company acquired the entire issued share capital of KleenAir Systems International, Inc., in exchange for the allotment and issue to the Vendors of 19,998 ordinary shares of £5 each in the capital of the Company *pro rata* to their holdings in KleenAir Systems International, Inc.
- 2.5 On 5 October 2004, by written resolution of the Company, the 50,000 ordinary shares of £5 each in the capital of the Company were sub-divided into 25,000,000 ordinary shares of 1p each in the capital of the Company.
- 2.6 On 5 October 2004, by written resolution of the Company, the directors were generally and unconditionally authorised for the purposes of section 80 of the Act to allot relevant securities of an aggregate nominal value equal to the authorised but unissued share capital of the Company, such authority expiring on 5 October 2009 unless revoked or renewed before that date. The directors were also empowered, pursuant to section 95 of the Act, to allot equity securities (within the meaning of section 94(2) of the Act) for cash as if section 89(1) of the Act did not apply to such allotment up to an aggregate nominal amount equal to the authorised but unissued share capital of the Company, such authority expiring on 5 October 2009 unless revoked or renewed before that date.
- 2.7 Save as disclosed in paragraph 7 below, no capital of the Company is under option or is agreed to be put under option.

- 2.8 The authorised and issued share capital of the Company (i) as at the date of this document and (ii) upon completion of the Subscription (on the basis of the maximum number of Subscription Shares being issued) is set out below:

<i>Authorised</i>			<i>Issued and fully paid</i>	
<i>£</i>	<i>Number</i>		<i>£</i>	<i>Number</i>
(i) 250,000	25,000,000	Ordinary Shares	100,000	10,000,000
(ii) 250,000	25,000,000	Ordinary Shares	150,000	15,000,000

### 3. Subsidiaries

- 3.1 The Company is a member of a group of which it is the holding company.

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

<i>Name</i>	<i>Place and date of incorporation</i>	<i>Entity holding shares</i>	<i>Percentage of share capital held</i>
KleenAir Systems International, Inc.	Commonwealth of the Bahamas 6 August 1998	the Company	100%
KleenAir Systems Limited	England and Wales 22 January 1997	KleenAir Systems International, Inc.	100%

- 3.3 The Company has no other direct or indirect interests in any other undertakings.

### 4. Memorandum and Articles of Association

The principal objects of the Company, which are set out in clause 3 of its Memorandum of Association, are to carry on the business of a general commercial company.

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

#### 4.1 Share Capital

The Company may, subject to the Act, issue shares with such rights and restrictions as the Company may by ordinary resolution determine including shares which are redeemable at the option of the Company or of the holder.

#### 4.2 Voting Rights

On a show of hands every holder of Ordinary Shares present in person or by proxy shall have one vote and on a poll every holder of Ordinary Shares has one vote for every Ordinary Share held. Any member who fails to supply the Company within 28 days of the date of service of the notice from the Company requiring such member to notify the Company in writing of all or any or such information as referred to in section 212 of the Act shall not be entitled without the prior written consent of all of the Directors to vote or to exercise any right conferred by the membership.

#### 4.3 Dividends

Subject to the provisions of the Act, the Company may by ordinary resolution declare dividends in accordance with the respective rights of the members, but no dividend shall exceed the amount recommended by the Directors.

Subject to the provisions of the Act, if and so far as in the opinion of the directors the profits of the Company justify such payments, the directors may also from time to time pay interim dividends of such amount and on such dates and in respect of such periods as they think fit.

Subject to the rights attaching to shares, all dividends shall be declared and paid according to the amounts paid up on the shares in respect of which the dividend is paid.

A general meeting declaring a dividend may, upon the recommendation of the directors, direct that payment of such dividend be satisfied wholly or in part by the distribution of assets and where the Directors may settle the same and may issue fractional certificates, fix the value for distribution of the assets, determine that cash may be paid to any member in order to adjust the rights of members or vest any assets in trustees.



Any dividend unclaimed after not less than 12 years from its due date of payment shall be forfeited and revert to the Company. Dividends shall not bear interest against the Company.

#### 4.4 Transfer of shares

Any member may transfer all or any of his shares by a transfer in usual or other form approved by the directors and 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 directors may decline to register any instrument of transfer unless the transfer:

- a. is deposited at the office or other place nominated by the directors accompanied by the certificate for the shares to which it relates, and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer;
- b. is in respect of only one class of shares;
- c. is in favour of not more than four transferees; and

If the directors refuse to register a transfer they will notify the transfer of the refusal within two months of the date on which the transfer was lodged.

#### 4.5 Pre-emption provisions

Subject to the provisions of the Articles and of the Act relating to authority, pre-emption rights and otherwise, or any resolution of the Company in general meeting passed pursuant thereto, all unissued shares shall be at the disposal of the Directors, who may allot, with or without preparing the right of renunciation, grant options over and otherwise dispose of them to such persons, at such times and on such terms as they think proper.

#### 4.6 Borrowing powers

Subject to the provisions of the Act, the directors may exercise all the powers of the Company to borrow without limit to amount and to mortgage or charge all or part of its undertaking, property, and uncalled capital and to issue debenture and other securities, whether outright or as security for any debt, liability or obligation of the Company or of any third party.

#### 4.7 Return of capital

If the Company is wound up, the liquidator may, with the sanction of an extraordinary resolution of the Company and any other sanction required by the Act, divide among the members in kind the whole or any part of the assets of the Company. For these purposes the liquidator may set such value as he deems fair upon such assets and determine how such division shall be carried out as between the members or different classes of members.

### 5. Directors' and other interests

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

	As at the date of this document		Following completion of the Subscription (on the basis of the maximum number of Subscription Shares being issued)	
	Number of Ordinary Shares	Percentage of issued share capital	Number of Ordinary Shares	Percentage of issued share capital
TWE Downes	800,000	8	800,000	5.33
PM Newell	400,000	4	400,000	2.67
AM Rentoul	400,000	4	400,000	2.67

- 5.2 Save as disclosed in paragraph 5.1 above, none of the Directors has any interests in the share capital or loan capital of the Company or any of its subsidiaries nor does any person connected with the

Directors (within the meaning of section 346 of the Act) have any such interests, whether beneficial or non-beneficial.

- 5.3 In addition to their directorships in the Group, the Directors hold or have held the following directorships and/or are or have been a partner in the following partnerships within the five years prior to the date of this document:

<i>Director</i>	<i>Current Directorships and (Partnerships)</i>	<i>Directorships (and partnerships) resigned during the past five years</i>
L Simons	KAIR Pollution Control Inc. Kesystems plc	Medtel Centers, Inc. MedTel Capital, Inc.
TWE Downes	Kesystems plc	
PM Newell	Aimsdale Enterprise Limited GBG Distribution Limited The Good Book Guide Limited Guidon Limited Huron University USA in London Limited Osney Consulting Limited Osney Investments Limited Oxford Business Learning Limited Oxford Wine and Food Festival Limited	The Good Book Guide Academic Limited The Good Book Guide for Kids Limited The Good Book Guide Titlefinder Limited The Good Business Guide Limited The Good Career Guide Limited The Good DVD Guide Limited The Good Gift Guide Limited The Good Learning Guide Limited The Good Media Guide Limited The Good Music Guide Limited W H Print Services Limited Wolsey Hall Oxford Limited
AM Rentoul	Bassett House School Bassett Road (No. 1) Bassett Road (No. 2) House Schools Group Newton Grove (No. 1) Newton Grove (No. 2) Orchard House School Prospect House School Thanyon Limited	The Bassett House School Partnership Financial News Licensing Limited The Newspaper Licensing Agency Limited Strawberry Hill Executives Limited

- 5.4 Save as disclosed in paragraph 5.5 below, no Director:

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

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

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

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

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

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

- 5.5 Mr Keane became a non-executive director of Tring International Group PLC in 1997 which was placed in administrative receivership in 1998. Mr Keane was appointed a non-executive director of Harvey Goldsmith Entertainments Limited in September 1997 which was placed into liquidation in September 1999. He resigned as a director in September 1999. At the time of the liquidation the estimated deficit to creditors was approximately £4.4 million. In September 1999 Mr Keane became

a director and shareholder in Timeframed Limited. On 11 October 2001 the directors of Timeframed Limited resolved to cease trading and put the Company into administrative receivership. The deficit to trade creditors was approximately £500,000 and the deficit to promoters' funds and shareholders' loans was approximately £7.5 million.

Mr Newell was a director of Wolsey Hall Oxford Limited which went into voluntary liquidation in June 2000.

- 5.6 Save as disclosed in paragraph 5.1 above and as set out below, the Directors are not aware of any person, directly or indirectly, jointly or severally, who exercises or could exercise control over the Company or who is interested in 3 per cent. or more of the issued share capital of the Company as at the date of the publication of this document and immediately following completion of the Subscription:

	<i>As at the date of this document</i>		<i>Following completion of the Subscription (on the basis of the maximum number of Subscription Shares being issued)</i>	
	<i>Number of Ordinary Shares</i>	<i>Percentage of issued share capital</i>	<i>Number of Ordinary Shares</i>	<i>Percentage of issued share capital</i>
Bramley Limited <sup>1</sup>	4,000,000	40	4,000,000	26.67
KAIR <sup>2</sup>	3,000,000	30	3,000,000	20.00
Guideline Securities Inc. <sup>1</sup>	1,000,000	10	1,000,000	6.67

- 5.7 No loans made or guarantees granted or provided by any member of the Group to or for the benefit of any director are outstanding.
- 5.8 Save as set out in this document, no director is or has been interested in any transaction which is or was unusual in its nature or conditions or significant to the business of the Group and which was effected by the Company or any of its subsidiaries and remains in any respect outstanding or unperformed.

## **6. Directors' service agreements**

- 6.1 The services of Mr Newell are provided pursuant to the terms of an agreement between KSL and Osney Consulting Limited dated 30 May 2002 which is subject to termination upon one month's notice given by either party, at a fee of £200 per day.
- 6.2 The services of Mr Rentoul are provided pursuant to the terms of an agreement between KSL and Mr Rentoul dated 26 February 2004 which is subject to termination upon one month's notice given by either party, at a fee of £180 per hour.
- 6.3 It is proposed that, in the event the Minimum Subscription is achieved, the Company will enter into a service agreement with Mr Simons under the terms of which he shall receive a salary in the amount of £75,000 per annum and Mr Simons will be entitled to a contribution of £3,000 per month towards his office and accommodation costs.
- 6.4 Save as set out in this paragraph 6, there are no service agreements in existence between any of the Directors and any member of the Group.
- 6.5 The estimated aggregate remuneration paid and benefits in kind granted to the Directors and the Proposed Directors for the first financial period of the Company from incorporation to 31 December 2004 under the arrangements in force at the date of this document is £100,000.

## **7. Material Contracts**

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

<sup>1</sup> Lionel Simons (together with his wife and daughter) are discretionary beneficiaries of a trust, the trustees of which own Bramley Limited and Guideline Securities Inc.

<sup>2</sup> Anthony Rentoul holds 20,000 shares in KAIR (being approximately 0.03 per cent. of the issued share capital of KAIR). Peter Newell holds 500,000 shares in KAIR and Mr Newell's wife holds 10,000 shares in KAIR (in aggregate amounting to 0.89 per cent. of the issued share capital of KAIR).

- 7.1 the Subscription Agreement pursuant to which Hoodless Brennan has agreed to use its reasonable endeavours to arrange for subscribers, as agent for the Company, to subscribe for the Subscription Shares at the Subscription Price. The Company will pay, subject to raising the Minimum Subscription, Hoodless Brennan a fee of £10,000 and a commission equal to 10 per cent. of the aggregate value of the Subscription Shares at the Subscription Price, together with all costs and expenses and VAT thereon where appropriate. The Company will also grant to Hoodless Brennan an option to subscribe for an agreed percentage of the issued share capital of the Company immediately following the Subscription at the Subscription Price exercisable at any time until 3 December 2007 (and further details of this option arrangement are set out in Part I of this document). The agreement provides for the Company to pay all expenses of and incidental to the Subscription, including the fees and costs of other professional advisers, all costs relating to the Subscription, including printing, advertising and distribution charges.

The agreement contains, *inter alia*, warranties by the Company, Lionel Simons and Pollution Control Inc in favour of Hoodless Brennan as to the accuracy of information contained in this document and other matters relating to the Group and its business and an indemnity in customary terms from the Company, Lionel Simons and Pollution Control Inc in favour of Hoodless Brennan. The liability of Lionel Simons and Pollution Control Inc pursuant to the warranties and the indemnity is capped.

Hoodless Brennan may terminate the Subscription Agreement in specified circumstances, principally in the event of a material breach of the Subscription Agreement or of any of the warranties contained in it or where any event of omission relating to the Group is, or will be in the opinion of Hoodless Brennan, materially prejudicial to the successful outcome of the Subscription, or where any change on national or international, financial, monetary, economic, political or market conditions is, or will be in the opinion of Hoodless Brennan materially prejudicial to the Company or the successful outcome of the Subscription.

- 7.2 the Share Exchange Agreement.

- 7.3 a licence agreement entered into on 6 October 2004 between KAIR and the Company pursuant to which KAIR has granted a licence to the Company to manufacture and sell any engine NOx reduction system using or incorporating any part of KAIR's patent rights, trade marks, copyrights and know how anywhere in the world except the United States of America and Canada for diesel or alternative fuel engines and the continents of Europe and Africa, the Middle East and the former Soviet Union for gasoline or alternative fuel engines. There is mutual licensing of improvements. . The principal terms of such licence are as follows:

Pursuant to the terms of the licence the Company undertakes to promote the development, manufacture and sale of systems to end users and dealers and distributors and to ensure all installed systems bear acknowledgement that they are made under licence from KAIR.

Save in respect to arrangements already entered into by KAIR with Extengine Transport Systems LLC, the licence granted pursuant to this agreement is exclusive.

The Company undertakes to promote the development, manufacture and sale of systems

The licence is irrevocable and non-terminable until the expiry of the last patent right to expire.

KAIR warrants to the Company *inter alia* that it owns the relevant technology and has the right to grant the rights and licences to the Company. KAIR also warrants that it is unaware of any claim by any third party to ownership of any of the technology.

The Company has agreed to indemnify KAIR in respect of any damage or other compensation which KAIR may for any reason be liable to pay to a third party because of any loss or damage caused to such third party as a consequence of the misapplication of the technology by the Company or any licensee. KAIR has agreed to indemnify the Company against any costs or damages incurred by the Company as a result of any breach of warranty or arising from any loss suffered by the Company arising from a defect or deficiency in the technology.

In consideration of the grant of the licence, the Company has agreed to pay to KAIR a running royalty, payable quarterly in arrears, at a rate of 8 per cent. per annum of its or its subsidiaries' gross revenue received from the sale of the systems and from any other exploitation of the technology by the Company.

In the event that the Company is in default of any obligation under the agreement, KAIR has the right to give written notice to the Company, and if, within 60 days following such notice, the Company has not remedied such default or otherwise taken all reasonable steps to satisfy KAIR, then KAIR may serve a substitution notice upon the Company which has the effect of transferring the rights and licences granted under the agreement to KAIR and/or such other person as KAIR may in writing direct. In the event that the Company goes into receivership or is acquired by a competitor of KAIR, KAIR shall also have the right to serve such a substitution notice.

The Company shall not be entitled to terminate the agreement unless the patents are declared invalid by a court of competent jurisdiction from which no appeal lies.

In the event KAIR goes into receivership or is subject to any other insolvency procedure, the rights and licences granted pursuant to the agreement shall not terminate, but the Company shall have the right of first refusal in the event of the patents and/or interest of KAIR under the agreement being sold or offered for sale. The agreement provides that neither the receiver nor liquidator nor other insolvency officer shall sell any of the patents or any part of KAIR's interest therein without first notifying the Company in writing of the intention to sell and of the amount and terms of any offer from any party to buy the same. The Company shall have 90 days from receiving such notification within which to complete a purchase of the same on as nearly as may be in the circumstances the same terms and same price. If the Company does not complete such purchase, KAIR's interest therein may be sold without restriction. Any such sale shall take effect subject to the terms of the agreement and the rights and licences granted thereunder.

- 7.4 On 6 October 2004, the Company entered into a licence with KleenAir Systems Limited pursuant to which the Company granted to KleenAir Systems Limited a licence of the technology the Company received pursuant to the licence mentioned in paragraph 7.3 above. The licence relates to the European Economic Area and such other territories as may become members of the European Economic Area or the European Union. The licence is otherwise on similar terms to the licence referred to in paragraph 7.3 above.

- 7.5 On 18 October 2004, KleenAir Systems Limited entered into a licence agreement with Dinex pursuant to which KleenAir Systems Limited granted to Dinex such licence under the patents, copyrights and know-how referred to in such contract as is necessary for Dinex to manufacture, market and sell, design, install and maintain NOx reduction devices or systems. The principal terms of the agreement are as follows:

The licence is non-exclusive and relates to the European Economic Area and such other territories that may become members of the European Economic Area or the European Union.

There is licensing of improvements from KleenAir Systems Limited to Dinex within the existing payment framework. Dinex licences its improvements to KleenAir Systems Limited upon payment of a royalty.

For each system sold by Dinex that incorporates the licensed technology, KleenAir Systems Limited is entitled to receive a fixed royalty that will range between 11 per cent. for light duty vehicles and 3.5 per cent. for heavy duty vehicles based on the anticipated cost to convert the respective vehicle.

KleenAir Systems Limited also granted to Dinex a licence to use the trademark "KleenAir" and "Noxmaster" in order for Dinex to market and sell the products within the territories in accordance with the agreement. Dinex granted to KleenAir Systems Limited a royalty free non-exclusive licence to use Dinex's name in respect of the Dinex<sup>®</sup> product.

Dinex is under an obligation to use best endeavours to promote the sales of the NOxMaster and Dinex<sup>®</sup> systems and to maximise the volume of such sales and penetrate such markets segments throughout the relevant territory as are from time to time agreed between the parties. Dinex shall manufacture enough products and spare parts to ensure prompt delivery and maintain customer trust in the KleenAir and NOxMaster brands.

KleenAir Systems Limited shall at its own cost take all prudent steps to defend any action or proceeding in which a claim is made for revocation of any patents. Dinex undertakes to indemnify KleenAir Systems Limited against all proceedings, costs, liabilities, injury, loss or damage arising as a result of the manufacture, storage, distribution, sale or use of the products or out of Dinex's negligence or breach of the terms of the agreement. In the event that Dinex is obliged to pay costs arising from a defective product manufactured or assembled by Dinex in accordance with the licensed

intellectual property, then to the extent that such product liability claims are a consequence of the intellectual property, KleenAir Systems Limited undertakes to indemnify Dinex in relation to such costs. Dinex undertakes that it will during the term of the agreement and for at least 7 years thereafter maintain adequate product liability insurance in respect of all products manufactured or dealt by it.

KleenAir Systems Limited shall have the right to terminate the agreement if Dinex (i) is in material unremedied breach of any of its provisions (ii) has any distress or execution levelled upon its goods or effects or (iii) is wound up or has any other insolvency procedure brought against it or (iv) ceases to do business at any time for 30 consecutive days or (v) for any reason other than a default of KleenAir Systems Limited is substantially prevented from performing or becomes unable to perform its obligations under the agreement. Dinex has the right to terminate the agreement if KleenAir Systems Limited is in material unremedied breach of any of its provisions.

The agreement cannot be assigned by Dinex.

- 7.6 On 18 October 2004 KleenAir Systems Limited and Dinex entered into a supply agreement pursuant to which Dinex agrees during the currency of the licence referred to at paragraph 7.5 above, to supply to KleenAir Systems Limited such volumes of NOxMaster products as may be required by KleenAir Systems Limited from time to time. The price for the products shall be the list selling price from time to time of Dinex less any volume discounts offered to other customers (provided always that the price charged by Dinex to KleenAir Systems Limited for any product will at any time be the lowest price charged at that time to any customer of Dinex for that product from time to time). Under this supply agreement KleenAir Systems Limited expects to sell into the market Dinex manufactured product to specific markets at a gross margin of between 20 and 25 per cent.
- 7.7 On 18 October 2004 the company (with KAIR) entered into a letter of consent with Dinex consenting to the grant of the licence agreement referred to in paragraph 7.5 above and undertaking to comply with certain provisions of that agreement to the extent not performed by KleenAir Systems Limited; and
- 7.8 the relationship agreement entered into on 20 October 2004 between KAIR, the Company and Lionel Simons, details of which are set out on page 14 of Part I of this document.

## **8. Taxation**

This paragraph is intended to be a general guide to current UK tax law and practice in the areas referred to below. It applies to persons who are resident or ordinarily resident in the UK for tax purposes and who beneficially own shares as investments. Any person who is not resident in the UK or who is in doubt as to his tax position or requires further information should consult an appropriate independent financial adviser.

### **8.1 UK taxation of dividends**

- 8.1.1 Under current UK tax law, no tax will be withheld by the Company when it pays dividends.
- 8.1.2 Individual shareholders resident for tax purposes in the UK should generally be entitled to a tax credit in respect of any dividend received equal to one-ninth of the amount of the net dividend. Such an individual shareholder's liability to UK income tax is calculated on the sum of the dividend and the tax credit (the "gross dividend") which, with certain other investment income, will be regarded as the top slice of the individual's income. The tax credit therefore equals 10 per cent, of the gross dividend. The tax credit will be available to set against such shareholder's liability (if any) to income tax on the gross dividend.
- 8.1.3 Individual shareholders liable to tax on income at the starting or basic rate will be liable to tax on dividend income received at the rate of 10 per cent. of the gross dividend. This means that the tax credit will satisfy the income tax liability of such a shareholder.
- 8.1.4 The rate of income tax applied to dividend income received by UK resident individuals liable to income tax at the higher rate will be 32.5 per cent. (2004/2005 tax year). After taking into account the 10 per cent. tax credit, a higher rate taxpayer will be liable to additional income tax of 22.5 per cent. of the gross dividend, equal to 25 per cent. of the net dividend.
- 8.1.5 Individual shareholders who are resident in the UK and who are not liable to income tax cannot claim repayment of the tax credit from the Inland Revenue.

8.1.6 A corporate shareholder resident for tax purposes in the UK will not normally be liable to corporation tax on any dividend received but cannot reclaim from the Inland Revenue the tax credits attaching to the dividend received.

8.1.7 Individual shareholders who are resident for tax purposes in countries other than the UK but who are Commonwealth citizens, nationals of states which are part of the European Economic Area, residents of the Isle of Man or the Channel Islands are entitled to a tax credit as if they were resident for tax purposes in the UK which they may set against their total UK income tax liability. Such shareholders will generally not be able to claim repayment of the tax credit from the Inland Revenue.

8.1.8 Other shareholders and shareholders who are not resident in the UK should consult their own independent professional advisers concerning their tax position on dividends received.

## **8.2 Stamp Duty and Stamp Duty Reserve Tax ("SDRT")**

8.2.1 The allotment and issue of new Ordinary Shares by the Company will not be subject to stamp duty or SDRT.

8.2.2 Any subsequent conveyance or transfer on sale of the Ordinary Shares will usually be subject to stamp duty on the instrument of transfer, generally at the rate of 0.5 per cent. (rounded up to the nearest £5) of the amount or value of the consideration. A charge to SDRT at the rate of 0.5 per cent. will arise in relation to an unconditional agreement to transfer such ordinary shares. However, if within six 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.

## **8.3 Capital Gains Tax ("CGT")**

8.3.1 An individual shareholder who is resident or ordinarily resident for tax purposes in the UK and who sells or otherwise disposes of his shares may, depending on his personal circumstances, incur a liability to UK tax on any capital gain, or deemed capital gain realised.

8.3.2 For a shareholder who is not within the charge to corporation tax (such as an individual, trustee or personal representative), taper relief, which reduces a chargeable gain depending on the length of time for which an asset is held, may be available to reduce the amount of chargeable gain realised on a subsequent disposal.

8.3.3 UK resident corporate holders of shares will, depending on their individual circumstances, be liable to UK tax on any disposal or deemed disposal of such shares, subject to the availability of indexation allowance.

## **8.4 Enterprise Investment Scheme and Venture Capital Trusts**

The Company has received provisional clearance from the Inland Revenue confirming that it should qualify for the taxation advantages offered under the EIS. The tax benefits of EIS are as follows:

8.4.1 **Income Tax Relief** – a qualifying investor can claim income tax relief of 20 per cent. of his investment in an EIS public limited company (on the basis of current tax rates) from his liability to tax for the current tax year. This relief can be claimed in respect of the first £200,000 invested by any investor in a tax year.

8.4.2 **Capital Gains Tax Exemption** – a qualifying investor is exempt from liability to capital gains tax on the disposal of shares in an EIS public limited company provided the shares have been held for three years and EIS income tax relief has been claimed on those shares and not withdrawn.

8.4.3 **Capital Gains Tax Liability Deferral** – a qualifying investor can defer current capital gains up to the amount invested in an EIS public limited company even if it exceeds the £200,000 limit. The subscription of EIS shares must be made, and the EIS shares issued, in the period beginning 12 months before and ending 36 months after the date of the disposal for which relief is claimed.

8.4.4 **Loss Relief** – any losses made in respect of EIS shares made net of any income tax relief attributable to them are allowable and may be set off against other capital gains of a qualifying

investor and it may also be possible to set off the net loss against either capital gains or other taxable income in the year of loss.

**8.4.5 Capital Gains Taper Relief** — gains made on investments over the EIS £200,000 threshold will be entitled to taper relief.

**8.4.6 Inheritance Tax Relief** — Shares in an EIS public limited company should in most cases qualify for 100 per cent. exemption from inheritance tax in the event of the death of the shareholder as long as the shares have been held for two years. This relief applies without limit on the amount invested.

**Investors considering taking advantage of any of the reliefs under EIS or available to VCTs should seek their own professional advice in order that they fully understand how the rules apply in their individual circumstances.**

## **9. Litigation**

There are no legal or arbitration proceedings which are active, pending or threatened against, or being brought by, any member of the Group which are having or may have a significant effect on the Company's or the Group's financial position.

## **10. General**

10.1 Save for the licensing arrangements described in Part I of this document there are no patents or other intellectual property rights, licences or particular contracts which are of fundamental importance to the Company's business.

10.2 Save as disclosed in Part I, there are no exceptional factors which have influenced the Group's activities and there are no significant investments in progress.

10.3. The total costs and expenses relating to the Subscription (on the basis of the maximum number of *Subscription Shares being issued and including those fees and commissions referred to in paragraph 7 above*) payable by the Company are estimated to amount to approximately £340,000 (excluding VAT). The net proceeds of the Subscription on such basis will be £1,160,000.

10.4 The minimum amount which, in the opinion of the Directors, must be raised under the Subscription to provide the sums required in respect of the matters specified in paragraph 21(a) of Schedule 1 of the POS Regulations is £600,000.

10.5 Except for fees payable to the professional advisers whose names are set out on page 2 above, payments to trade suppliers, and payments referred to at paragraph 6 above, no person has received any fees, securities in the Company or other benefit to a value of £10,000 or more, whether directly or indirectly, from the Company within the 12 months preceding the application for Subscription, or has entered into any contractual arrangement to receive from the Company, directly or indirectly, any such fees, securities or other benefit on or after completion of the Subscription.

10.6 The financial information set out in this document does not constitute statutory accounts of the Company nor KSL within the meaning of section 240 of the Act. No statutory accounts of the Company have been delivered to the registrar of companies.

10.7 Grant Thornton UK LLP has given and has not withdrawn its written consent to the issue of this document with the inclusion of its reports and the references to such reports and to its name in the form and context in which they appear.

10.8 Hoodless Brennan has given and not withdrawn its written consent to the issue of this document with the inclusion of references to it and to its name in the form and context in which such references are included.

10.9 Share certificates representing the Subscription Shares are expected to be dispatched to holders by post and at their own risk within 14 days of the Closing Date.

10.10 Temporary documents of title will not be issued in connection with the Subscription. Pending the despatch of definitive share certificates (as applicable), instruments of transfers will be certified against the register of members of the Company.

Dated: 20 October 2004



## **PART VI**

### **TERMS AND CONDITIONS OF THE SUBSCRIPTION**

1. The Subscription and all applications made thereunder are conditional upon the Minimum Subscription being met upon valid applications being received on or before the Closing Date.
2. Applications for Subscription Shares must be made on the Application Form and must be for a minimum of 30,000 Subscription Shares. All applications must be received by Hoodless Brennan on or before the Closing Date. A cheque for the full subscription amount made payable to Hoodless Brennan must accompany the application.
3. Application monies may be presented on receipt and will be retained in a separate designated bank account pending allotment of Subscription Shares. Interest earned on application monies pending allotment, or return to applicants, will be retained for the benefit of the Company. If any application is not accepted the amount paid will be returned by cheque without interest. If any application is accepted for a lesser number of Subscription Shares than the number applied for, the balance of the amount will be returned by cheque without interest. In each case the cheque will be sent through the post at the applicant's own risk. It is expected that in such cases the relevant cheque will be sent to the applicant within 14 days of the Closing Date.
4. The right is reserved to scale down or reject or accept any application in whole or in part only and whether or not the Application Form is properly completed. Share certificates will be posted to successful applicants within 14 days of the Closing Date, provided that the right is reserved to present all cheques and bankers' drafts for payment on receipt and to retain share certificates pending clearance of all cheques.
5. No person receiving a copy of this document and an Application Form in any territory other than the United Kingdom may treat the same as constituting an invitation or offer to such person, nor should such person in any event use such Application Form unless in the relevant territory such an invitation or offer could lawfully be made to such person or such Application Form could lawfully be used without contravention of any registration or other legal requirements. It is the responsibility of any person outside the United Kingdom wishing to make an application hereunder to satisfy himself or herself as to full observance of the laws of the relevant territory in connection therewith, including obtaining any governmental or other consents which may be required or observing any other formalities needing to be observed in such territory. The Company reserves the right to treat as invalid any Application Form that appears to the Company or its agents to have been executed or despatched in a manner which may involve a breach of securities legislation of any jurisdiction.
6. The Subscription Shares have not been and are not intended to be registered under the United States Securities Act of 1933 (as amended) (the "Securities Act") or the Securities Exchange Act of 1934, as amended, and the relevant exemptions are not being obtained from the securities regulatory authority of any province of Canada. Accordingly, except in a transaction which is exempt under the relevant legislation, the Subscription Shares may not be directly or indirectly offered, sold or delivered in the United States or Canada or to US persons or persons resident in Canada nor may an Application Form be lodged by any such persons.

For the purposes of this document, "United States" means the United States of America, each state thereof (including the District of Columbia), its territories, possessions and all areas subject to its given jurisdiction, "Canada" means Canada and each province thereof, "US person" has the meaning given in Regulation S promulgated under the Securities Act and "resident in Canada" means a citizen, national or resident of Canada, the estate of any such person, a partnership, corporation or other entity created or organised in or under the laws of Canada, or any estate or trust the income of which is liable to Canadian income tax regardless of the source. Each person who completes an Application Form warrants that he or she is not a US person or a person resident in Canada and that he or she will not hold or acquire any of the Subscription Shares for the account or benefit of any US person or person resident in Canada or with the view to the subscription, sale or delivery directly or indirectly of any Ordinary Shares in the United States or Canada or any province thereof, or to or for the account of any US person or person resident in Canada.

**Persons resident in other overseas territories should consult their professional advisers as to whether they require any governmental or other consents or need to observe any other formalities to enable them to participate in the Subscription.**

7. By completing and delivering an Application Form you as the applicant (and if you sign the Application Form on behalf of somebody else or a corporation, that person or corporation):
  - (1) irrevocably offer to subscribe for the number of Subscription Shares specified in the Application Form on the terms of, and subject to, the conditions set out in this document, including these terms and conditions and subject to the Memorandum and Articles of Association of the Company;
  - (2) agree that all applications, acceptances, allotments and contracts arising from this application will be governed by and construed in accordance with English law;
  - (3) warrant that if you sign the Application Form on behalf of somebody else or a corporation you have the authority to do so and such person will also be bound accordingly and will be deemed to have given the confirmations, warranties, and undertakings contained in these terms and conditions of application;
  - (4) confirm that you are not relying on any information or representations other than those contained in this document;
  - (5) warrant that the remittance accompanying your Application Form will be honoured at first presentation and agree that if it is not so honoured the Company (without prejudice to any other rights it may have) may void the agreement to allot the relevant Subscription Shares and may allot them to some other person in which case you will not be entitled to any refund or payment in respect thereof;
  - (6) agree that this application constitutes a contract with the Company which shall become binding upon delivery of the Application Form duly completed at the address shown on the Application Form;
  - (7) do not expect any of the advisers named in this document to provide you with any protections afforded to their clients and are subscribing on an "execution only" basis;
  - (8) are not a national or resident of the United States of America (including its territories, its possessions and all areas subject to its jurisdiction) or Canada or a corporation, partnership or other entity organised under the laws of the United States of America or Canada (or any political sub-division of either) and that you will not offer, sell or deliver directly or indirectly any of the Subscription Shares in the United States or Canada or Australia or to for the benefit of any person resident in the United States of America or Canada;
  - (9) are entitled to subscribe for the Subscription Shares comprised therein under the laws of all relevant jurisdictions which apply to you, that you have fully observed such laws and obtained all governmental and other consents which may be required thereunder and complied with all necessary formalities; and
  - (10) have read the section headed "Risk Factors" in Part II of the Prospectus and you confirm that you understand the nature of the risks and that you could lose all of your investment in the Company.
8. The application is personal to the Applicant identified by Hoodless Brennan and is non-transferable.

## HOW TO COMPLETE THE APPLICATION FORM

**Before making any application to acquire Subscription Shares, you are recommended to consult an independent adviser authorised under the Financial Services and Markets Act 2000.** The following instructions should be read in conjunction with the Application Form and the terms and conditions of the application set out in this document.

### The Application Form

Applications must be for a minimum of 30,000 Subscription Shares.

- 1. Insert in Box 1 (in figures) the number of ordinary shares for which you are applying.**
- 2. Insert in Box 2 (in figures) the amount of your cheque or banker's draft.**
- 3. Insert your full name and address in BLOCK CAPITALS in Box 3.**
- 4. Sign and date the Application Form in Box 4.**

The Application Form may be signed by another person on your behalf if that person is duly authorised to do so under a power of attorney or such other form of authority acceptable to the Directors in their absolute discretion. The power(s) of attorney ((or copy/ies) thereof duly certified by a solicitor) or form(s) of authority must be enclosed for inspection. A corporation should sign under the hand of a duly authorised official whose representative capacity must be stated.

**You must pin a single cheque or banker's draft to your completed Application Form in Box 5. Your cheque or banker's draft must be payable to "Hoodless Brennan & Partners plc" for the amount payable on application (inserted in Box 2) and should be crossed "A/C payee only".**

A separate cheque or banker's draft must accompany each application. No other method of payment is acceptable. No receipt will be issued for this payment.

Your cheque or banker's draft must be drawn in Sterling and bear a UK bank sorting code in the top right-hand corner.

### *Money Laundering Regulations 2003*

It is a term of the Subscription that, to ensure compliance with the Money Laundering Regulations 2003 ("Money Laundering Regulations") each of the Company or Hoodless Brennan is entitled to require, at its absolute discretion, verification of identity from any person lodging an Application Form including, without limitation, any person who either (i) tenders payment by way of a cheque or banker's draft drawn on an account in the name of a person or persons other than the applicant or (ii) appears to Hoodless Brennan to be acting on behalf of some other person. Pending the provision of evidence satisfactory to Hoodless Brennan as to the identity of the applicant and/or any other person on whose behalf the applicant appears to be acting, Hoodless Brennan may, in its absolute discretion, retain an Application Form lodged by an applicant and/or the cheque or other remittance relating thereto and/or not enter the applicant on the register of members or issue any certificate in respect to the Subscription Shares allotted to the applicant.

If verification of identity is required, this may result in a delay in dealing with an application and in rejection of the application. The Company and Hoodless Brennan reserves the right, in their absolute discretion, to reject any application in respect of which Hoodless Brennan considers that, having requested verification of identity, it has not received evidence of such identity satisfactory to it by such time as was specified in the request for verification of identity or in any event within a reasonable period. In the event of an application being rejected in any such circumstances, the Company and Hoodless Brennan reserve the right in their absolute discretion, but shall have no obligation, to terminate any contract of allotment relating to and constituted by such Application Form (in which event the money payable or paid in respect of the application will be returned (without interest) to the account of the drawer's bank from which such sums were originally debited) and/or to endeavour to procure other subscribers for the Subscription Shares in question (but in each case without prejudice to any rights the Company or Hoodless Brennan may have to take proceedings to recover in respect of loss or damage suffered or incurred by it as a result of the failure to produce satisfactory evidence as aforesaid). Return of an Application Form with the appropriate remittance will constitute a warranty from the applicant that the Money Laundering

Regulations will not be breached by acceptance of the remittance and an undertaking from the applicant to provide verification of identity to either the Company or Hoodless Brennan if so requested.

Neither the company nor Hoodless Brennan shall be responsible or have any liability for loss or damage (whether actual or alleged) arising from the election by the Company to treat an application in respect of the Subscription Shares lodged by any applicant as invalid or to terminate the contract of allotment as a result of the Company or Hoodless Brennan not having received evidence as to the identity of the person lodging the relevant Application Form reasonably satisfactory to it within a reasonable time of having requested such information.

**Send the completed Application Form by post or by hand to Hoodless Brennan & Partners Plc, 40 Marsh Wall, Docklands, London E14 9TP duly completed.**

## ADDITIONAL TERMS AND CONDITIONS

1. Hoodless Brennan has entered into the Subscription Agreement with the Company as described in paragraph 7 of Part V of the Prospectus in connection with the Subscription. Under the Subscription Agreement Hoodless Brennan will agree, on the terms and conditions set out therein as agent for the Company, to use its reasonable endeavours to procure subscribers for the Subscription Shares on behalf of the Company. By signing the Application Form the Applicant:
  - (a) acknowledges that its commitment is conditional;
  - (b) acknowledges that the Subscription is conditional upon the Subscription Agreement becoming unconditional in all respects and not having been terminated in accordance with its terms prior to the Closing Date;
  - (c) acknowledges that the Subscription Agreement contains provisions entitling Hoodless Brennan to terminate its obligations contained therein prior to the Closing Date in the event, *inter alia*, of a breach of any of the Warranties which Hoodless Brennan reasonably considers to be material in the context of the Subscription, or where due to a change in national or international financial, economic, political, military or market conditions or any terrorist action or in the financial or trading position or prospects of the Group which is, in the reasonable opinion of Hoodless Brennan, of such magnitude and severity as to be material in the context of the Subscription;
  - (d) agrees that subject to the terms of the Subscription Agreement any exercise by Hoodless Brennan of its right to terminate the Subscription Agreement or the waiver of any condition or matter without consulting the Applicant shall be within Hoodless Brennan's absolute discretion and that Hoodless Brennan shall have no liability to the Applicant whatsoever in connection therewith and the Applicant's rights and obligations shall cease at such time and no claims may be brought by the Applicant;
  - (e) acknowledges that its obligations are irrevocable and are not capable of termination or rescission by it in any circumstances.
2. By signing the Application Form the Applicant hereby acknowledges that the acceptance and basis of allocation of the Subscription Shares is in the absolute discretion of the Directors and Hoodless Brennan and that they have reserved the right to reject in whole or in part or to scale down any application including without limitation multiple or suspected multiple applications or any applications considered by the Directors to have been made by a nominee. If any application is not accepted, or accepted for fewer Subscription Shares than the number applied for, the application monies or the balance thereof (as the case may be) will be returned by sending the applicant's cheque or banker's draft or a crossed cheque in favour of the applicant in each case by post or by hand and at the risk of the person entitled to the address of the applicant without interest.
3. In consideration of the Directors agreeing that they will consider and process the Applicant's application for Subscription Shares and as a separate contract with the Company which will become binding on despatch by post of this application form:
  - 3.1 the Applicant understands that its acceptance of its Subscription participation constitutes its acknowledgement and agreement that it does not expect Hoodless Brennan or any of its associated companies to have any duties or responsibilities towards it for providing protections afforded to their respective customers under The Financial Services Authority Handbook of Rules and Guidance ("FSA Rules") or advising it with regard to the Subscription;
  - 3.2 the Applicant understands that, in addition to its confirmation of its Subscription participation, the Applicant agrees and acknowledges that it is not and will not be, in respect of the Subscription, a customer of Hoodless Brennan or any of its associated companies for the purpose of the FSA Rules (If in doubt, the Applicant should seek independent advice from someone authorised under Financial Services and Markets Act 2000 ("FSMA"));
  - 3.3 the Applicant warrants that his cheque or banker's draft will be honoured on first presentation and agree that if such cheque or banker's draft is not so honoured the Applicant will not be entitled to receive a share certificate for any Subscription Shares until the Applicant makes a payment in cleared funds for such Subscription Shares and such payment is accepted by the Company in its absolute discretion which acceptance may be on the basis that the Applicant indemnifies the Company and Hoodless Brennan against all costs, damages, losses, expenses

and liabilities arising out of or in connection with the failure of his remittance to be honoured on the first presentation;

- 3.4 the Applicant understands that any application by him to invest in the Company shall be deemed to be a Subscription up to the value of such application and that such Subscription shall be deemed to take effect on despatch by post by the Applicant of the Application Form;
- 3.5 the Applicant, in accepting a Subscription participation, warrants and undertakes that it has not relied on any information given or any representations or statements made at any time by any person or the Company in connection with the Subscription, the Company, the Subscription Shares or otherwise, other than the information contained in the Prospectus ('Information') and that in making its application under the Subscription it will be relying solely on the Information and it has made an investigation of the pertinent facts relating to the operation of the Company to the extent it deems necessary in order to be fully informed with respect thereto;
- 3.6 the Applicant authorises Hoodless Brennan to send a cheque for any monies returnable to him by first class post at the Applicant's risk to the address given overleaf or to the Applicant's introducing agent;
- 3.7 the Applicant agrees that his application is irrevocable;
- 3.8 the Applicant warrants that if the Application Form has been signed on his behalf by any other person such person has due authority to do so and that such person will also be bound accordingly and be deemed to have given the confirmations warranties and undertakings contained therein;
- 3.9 the Applicant warrants that he is not, nor is he applying on behalf of a person who is, under the age of 18;
- 3.10 the Applicant confirms that he is a person of the kind described in Articles 19, 34, 39, 47 or 49 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001;
- 3.11 the Applicant hereby warrants and declares that:
  - (a) he is not connected with the Company and he will notify the Directors immediately in writing if he becomes so connected as defined in section 291 of the Income and Corporation Tax Act 1988.
  - (b) he agrees that this Application Form shall be construed in accordance with and governed by the laws of England and Wales;
- 3.12 the Applicant declares that he has read, understood and agreed to the terms and conditions contained in the Prospectus and this Application Form including the risk factors set out in Part II of the Prospectus; that he has taken all the appropriate professional advice, which he considers necessary before submitting his application and he is aware of the special risks involved in participating in an investment of this nature; and that he understands that his application is made upon the terms of the Prospectus and this Application Form;
- 3.13 the Applicant acknowledges that in relation to the transactions described in the Prospectus, advisers of the Company mentioned therein are acting for the Company and not for the Applicant or on the Applicant's account and that accordingly will not be responsible to the Applicant for providing protection afforded to their clients, for advising the Applicant on any transaction described herein, or for ensuring that any such transaction is suitable for him;
- 3.14 the Applicant warrants and declares that in connection with his application for Subscription he has observed the laws of all requisite territories and has complied with the requirements for overseas Subscribers (if applicable) and has obtained any requisite governmental or other consents which may be required, complied with all requisite formalities and paid any issue, transfer or other loans due in connection with his application in any territory and that he has not taken any action which may result in the Company or Hoodless Brennan acting in breach of the regulatory or legal requirements of any territory in connection with the Subscription or his application;
- 3.15 the Applicant agrees that the Application Form and all matters in connection herewith shall be construed in accordance with and governed by the laws of England and Wales. The Applicant agreed to submit to the exclusive jurisdiction of the English Courts but that nothing shall limit

the right of the Company to bring any action, suit or proceeding arising out of or in connection with the Application Form or any matter in connection therewith in any manner permitted by law or in any court of competent jurisdiction;

3.16 the Applicant agrees that the terms and expressions used in the Application Form shall have the meanings set out in the Prospectus unless the context otherwise requires; and

3.17 the Applicant warrants that the Subscription Shares will be held by him for investment purposes.