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

The Directors, whose names appear on page 3, accept responsibility for the information contained in this document. To the best of the knowledge 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 this document makes no omission likely to affect the import of such information.

**The Offer for Subscription is not underwritten. The issue of IPO Shares is conditional, *inter alia*, on Admission taking place on or before 31 July 2005. The issue of Pre-IPO shares is not conditional on Admission.**



## KP Renewables plc

(Incorporated in England and Wales with registered number 04981279)



**Offer for Subscription of up to 10,000,000 Pre-IPO Shares at 40 pence per share  
and up to 10,000,000 IPO Shares at 125 pence per share**

### Financial Adviser - Deloitte & Touche LLP

Deloitte & Touche LLP is acting for KP Renewables plc and no-one else in connection with the Offer for Subscription. Deloitte & Touche LLP has been appointed to act as Nominated Adviser to KP Renewables plc in relation to the proposed admission of the Ordinary Shares of the Company to trading on AIM. Deloitte & Touche LLP is not acting for and will not be responsible to anyone other than KP Renewables plc for providing the protections offered to clients of Deloitte & Touche LLP nor for providing advice in relation to the Offer for Subscription and proposed Admission or any matter referred to herein. Deloitte & Touche LLP is authorised and regulated in the United Kingdom by the Financial Services Authority in respect of regulated activities. Deloitte & Touche LLP can be contacted at its principal office: Stonecutter Court, 1 Stonecutter Street, London EC4A 4TR.

This document does not constitute an offer to sell or the solicitation of an offer to buy or subscribe for Ordinary Shares in any jurisdiction in which such offer or solicitation is unlawful and, in particular, is not intended for distribution in or into the United States, Canada, Australia or Japan. The Ordinary Shares have not been, and will not be, registered under the United States Securities Act of 1933 (the "Securities Act") as amended, or any state securities laws and, unless so registered, may not be offered or sold except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act or applicable state securities laws. In addition, the securities have not been registered under the applicable securities laws of Canada, Australia or Japan. The distribution of this document in other jurisdictions may be restricted by law and therefore persons into whose possession this document comes should inform themselves about and observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction.

**This document contains forward looking statements, including, without limitation, statements containing the words "believe", "anticipate", "expect" and similar expressions. Such forward looking statements involve unknown risk, uncertainties and other factors that may cause the actual results, financial condition, performance or achievement of the Company, or industry results to be materially different from any future results, performance or achievements expressed or implied by such forward looking statements. Factors that might cause such a difference include, but are not limited to, those discussed in "Risk Factors" set out in Part II of this document. Given these uncertainties, prospective investors are cautioned not to place any undue reliance on such forward looking statements. The Company disclaims any obligation to update any such forward looking statements in this document to reflect future events or developments.**

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## **DIRECTORS, SECRETARY, REGISTERED OFFICE AND ADVISERS**

Directors	<p>John Bryant, Non-executive Chairman Dr James Richard Watkins, Chief Executive Robert Franklin Smyth, Finance Director Stephen Mark Drummond, Non-executive Director Dr David Lindley, Non-executive Director David Oliver Lloyd-Jacob, Non-executive Director</p> <p>all of whose business address is at the Company's office: Boston House 69-75 Boston Manor Road Brentford TW8 9JJ London, England</p>
Company Secretary	<p>Timothy Jon Trigg Trigg &amp; Co Chartered Accountants 2 Merton Mansions London SW20 8DQ</p>
Registered Office	<p>Chiswick Park Building 3 566 Chiswick High Road Chiswick London W4 5YA</p>
Financial Adviser	<p>Deloitte &amp; Touche LLP Stonecutter Court 1 Stonecutter Street London EC4A 4TR</p>
Auditors	<p>Moore Stephens St. Paul's House Warwick Lane London EC4P 4BN</p>
Solicitors	<p>Hunton &amp; Williams Fleetway House 25 Farringdon Street London EC4A 4AB</p>

## DEFINITIONS

“Act”	the Companies Act 1985, as amended
“Admission”	the admission of the issued Ordinary Shares (including the Subscription Shares) to trading on AIM becoming effective in accordance with the AIM Rules
“AIM”	a market operated by the London Stock Exchange
“AIM Rules”	the rules issued by the London Stock Exchange governing the admission to trading on, and the operation of, AIM
“Application Form”	the application form for use in connection with the Offer for Subscription
“BizzEnergy”	BizzEnergy Limited
“Board”	the board of Directors
“British Gas”	British Gas Trading Limited
“Combined Code”	The Combined Code on Corporate Governance effective from 2004
“CREST”	the relevant system (as defined in the CREST Regulations) operated by CREST Co Limited in accordance with which securities may be held and transferred in uncertificated form
“CREST Regulations”	the Uncertificated Securities Regulations 2001 (SI 2001 No. 3755), as amended
“Directors”	the directors of the Company, whose names are set out on page 3
“EU”	the European Union
“Group”	the Company and its subsidiary undertakings
“IPO Shares”	up to 10,000,000 new Ordinary Shares proposed to be offered by the Company pursuant to the Offer for Subscription
“IPO Subscription Price”	125 pence per IPO Share
“Issue”	the issue of the Subscription Shares pursuant to the Offer for Subscription
“KP Bioenergy Holding”	KP Bioenergy Holding Limited, a company incorporated in England and Wales with registered number 04054961, being a wholly owned subsidiary of KP Renewables (Operations)
“KP Renewables” or the “Company”	KP Renewables plc, a company incorporated in England and Wales with registered number 04981279
“KP Renewables (Operations)”	KP Renewables (Operations) Limited, a company incorporated in England and Wales with registered number 03999194, being a wholly owned subsidiary of the Company
“KP Wind Holdings”	KP Wind Holdings Limited, a company incorporated in England and Wales with registered number 05075577, being a wholly owned subsidiary of KP Renewables (Operations)
“Kwikpower International”	Kwikpower International plc, a company incorporated in Gibraltar, the parent company of KP Renewables

“Kwikpower International Services Agreement”	the services agreement between Kwikpower International and the Company, details of which are set out in paragraph 3(f) of Part V of this document
“London Stock Exchange”	London Stock Exchange plc
“Offer for Subscription”	the offer to subscribe for the Pre-IPO Shares at the Pre-IPO Subscription Price and the IPO Shares at the IPO Subscription Price to be made to Qualifying Subscribers by the Company as described in this document
“Official List”	the list maintained by the United Kingdom Listing Authority pursuant to Part VI of the Financial Services and Markets Act 2000
“Ofgem”	the Gas and Electricity Markets Authority, known as the Office of Gas and Electricity Markets
“Ordinary Shares”	ordinary shares of 1 pence each in the capital of the Company
“PPA” or “PPAs”	each or all of the three separate power purchase agreements (as amended) relating to the supply of electricity generated from renewable sources between KP Renewables (Operations) and each of Scottish & Southern, BizzEnergy and British Gas respectively, details of which are set out in paragraph 5 of Part V of this document
“Pre-IPO Shares”	up to 10,000,000 new Ordinary Shares proposed to be offered by the Company pursuant to the Offer for Subscription
“Pre-IPO Subscription Price”	40 pence per Pre-IPO Share
“Qualifying Subscribers”	an individual/entity who is entitled to accept the Offer for Subscription in accordance with the terms and conditions set out in Part IV of this document
“Scottish & Southern” or “SSE”	SSE Energy Supply Limited
“Share Option Plan”	the share option plan (unapproved by the Inland Revenue) adopted by the Company on 17 June 2004, details of which are set out in paragraph 6 of Part V of this document
“Subscription Prices”	the IPO Subscription Price and the Pre-IPO Subscription Price
“Subscription Shares”	the Pre-IPO Shares and IPO Shares
“UK” or “United Kingdom”	the United Kingdom of Great Britain and Northern Ireland

## GLOSSARY OF TERMS

CCL	Climate Change Levy of £4.30 per MWh payable to HM Revenue & Customs pursuant to the Finance Act 2000
CHP	Combined Heat and Power schemes
Gasification and/or Pyrolysis	advanced thermal processes, at varying temperatures, for the conversion of carbon based materials into a combustible gas
IPDA	individual project development agreement
LEC	a levy exemption certificate which is granted by Ofgem and which entitles the bearer to a 100 per cent. rebate of any amount paid by the energy generator under the CCL
MW	megawatt, a unit of power equal to one million watts or 1,000 kilowatts
MWh	a unit of energy equivalent to the energy of one million watts operating for one hour
REGO	a renewable energy guarantee of origin certificate, as contemplated by the Electricity (Guarantees of Origin of Electricity produced from Renewable Energy Sources) Regulations 2003
RO	the Renewables Obligation Order 2002 (as amended and restated in the Renewables Obligation Order 2005) and the Renewables Obligation (Scotland) Order 2002 (as amended and restated in the Renewables Obligation (Scotland) Order 2005)
ROC	a renewables obligation certificate which is granted by Ofgem to designated energy suppliers for each MWh of qualifying renewable energy
ROC Buy-Out	a cash penalty paid per MWh by energy suppliers to the ROC buy-out fund for any shortfall in ROCs pursuant to the RO. At the date of this document, the ROC buy-out penalty is £31.39 per MWh (indexed to the retail price index)
ROC Recycling	the payment to the holders of ROCs from the ROC buy-out fund, administered by Ofgem, of the aggregate ROC buy-out penalties
SPV	a company/partnership established as a special purpose vehicle to finance individual renewable energy projects in which the Company intends to invest equity

## KEY INFORMATION

This information should be read in conjunction with the full text of this document. You should read the whole of this document and not just rely on the key information set out below. **In particular your attention is drawn to the risk factors set out in Part II of this document.**

- KP Renewables was incorporated on 1 December 2003 as a subsidiary of Kwikpower International, a company acquired by one of the Directors, Dr James Watkins in 2000. Dr Watkins has been involved with technologies for producing alternative fuels and energy solutions from waste since 1996.
- The Group's business strategy is to establish a leading position in the UK renewable energy sector by developing, building or acquiring a portfolio of renewable energy projects in conjunction with small to mid-sized renewable energy generators. The Directors believe that due to the current legislative and regulatory environment an opportunity exists for a substantial and profitable business directed at exploiting renewable energy generating opportunities in the UK.
- The Directors believe there will be a substantial expanding market for renewable energy generation in the UK driven principally by the RO. This requires electricity suppliers to source an increasing percentage of their supplies from renewable sources (10.4 per cent. by 2010 and 15.4 per cent. by 2015) or otherwise pay a ROC Buy-Out penalty for each MWh they fall short of the target percentage in the RO. The Directors also believe that the combined impact of the RO and CCL creates a significant premium in the price of renewable electricity compared with the price generally achievable for conventionally generated electricity.
- The Group has entered into framework PPAs, which enable it to sell up to 520MW of renewable energy on pre-agreed terms, with three leading electricity supply companies in the UK:
  - British Gas, up to 300MW;
  - BizzEnergy, up to 150MW; and
  - Scottish & Southern, up to 70MW.

The Directors believe that the 520MW contracted under the PPAs represents a significant proportion of the UK's current requirement for ROCs.

- The Group intends to co-invest with small to mid-sized generators (which may not otherwise be able to secure similar power sales arrangements with large electricity suppliers) in renewable energy projects. The Group will aggregate the output of these projects and sell it to the electricity supply companies under the terms of the PPAs.
- The Group intends to facilitate the development of these projects by:
  - establishing joint development projects with renewable energy developers and generators;
  - utilising its management's expertise in project structuring, development and financing; and
  - investing an anticipated 20 to 50 per cent. of the equity required in each project.
- It is intended that the Group's portfolio of renewable energy projects should not be dependent on any single technology and is expected initially to comprise wind and biomass-related projects. To this end, the Group has entered into joint development agreements with development partners in wind and biomass-related projects and intends to enter into negotiations with a number of small developers.
- The Offer for Subscription will, if fully subscribed, raise £15.7 million (net of expenses) which will provide the Group with sufficient working capital for its current requirements and enable it to invest, on a discretionary basis, together with its joint development partners or investors, in renewable energy projects.

- The profitability of each renewable energy project and the level of energy generated therefrom will depend upon a number of factors including the type of technology employed and the level of equity subscribed. The Directors believe the Company will have sufficient projects available, from its own development portfolio as well as from co-development partners, to allow it to fulfil the 520MW contracted under the PPAs.
- In order to fulfil the maximum 520MW contracted under the PPAs, it is estimated projects with an aggregate £100 million of equity investment (based on the Directors' assessment of currently available project debt) will be required. It is the Company's intention to own no more than 50 per cent. of the equity of any one project. On the basis of a 50 per cent. equity interest, the Company will require approximately £50 million to finance its investments in full. The Company will consider the use of the various alternatives available which could encompass further issues of equity (including the possible use of an equity call option facility) and targeting projects which attract enhanced capital allowances, as set out in Part I of this document.
- The Company will seek to enter into contracts for more than 520MW as and when such contracts become available. Correspondingly, the Company will seek to invest in projects which would give rise to more than 520MW of renewable energy in aggregate.
- The Company is offering Qualifying Shareholders a total of up to 20,000,000 Ordinary Shares on the following basis:
  - up to 10,000,000 Pre-IPO Shares at 40 pence per Pre-IPO Share payable in full on application. The issue of Pre-IPO Shares is unconditional; and
  - up to 10,000,000 IPO Shares at 125 pence per IPO Share payable in full on application. The issue of IPO Shares is conditional on Admission occurring on or before 31 July 2005.
- Assuming that the Company raises a minimum of £3.7 million (gross) pursuant to the Offer for Subscription, the Company intends to seek admission of the Ordinary Shares to trading on AIM as soon as reasonably practicable.
- If the Company does not raise the maximum amount available under the Offer for Subscription, it will consider making a further offer for subscription to the public. In the event that sufficient funds are not raised and Admission does not occur on or before 31 July 2005, funds subscribed by Qualifying Shareholders for IPO shares only will be fully refunded.



## **Offer for Subscription statistics**

Pre-IPO Subscription Price per Pre-IPO Share:	40 pence
IPO Subscription Price per IPO Share:	125 pence
Number of Ordinary Shares in issue prior to the Offer for Subscription:	41,296,974
Number of Pre-IPO Shares being issued:	up to 10,000,000
Number of IPO Shares being issued:	up to 10,000,000
*Gross proceeds of the Offer for Subscription receivable by the Company:	£16,500,000
*Net proceeds of the Offer for Subscription receivable by the Company:	£15.7 million
*Number of Ordinary Shares in issue on completion of the Offer for Subscription:	61,296,974

\* **Note:** Where indicated by an asterisk above, the statistics assume that the maximum number of Pre-IPO Shares and IPO Shares are subscribed pursuant to the Offer for Subscription

## **Expected timetable of principal events**

Closing date for the Offer for Subscription	3.00 p.m. on 8 June 2005
Definitive share certificates in respect of Pre-IPO Shares despatched by	22 June 2005

## PART I

### INFORMATION ON THE COMPANY

#### **Introduction**

The Group's business strategy is to establish a leading position in the UK renewable energy sector by developing, building or acquiring a portfolio of renewable energy projects. The Directors believe that due to the current legislative and regulatory environment, an opportunity exists for a substantial and profitable business directed at exploiting renewable energy generating opportunities in the UK.

Electricity generation and supply in the UK is dominated by large power utility companies. The Directors believe that a major barrier to entry into the market for small to mid-size renewable energy generators is the need to find a buyer for their renewable energy output on a long-term basis. The Directors believe that the Group has overcome this barrier by entering into framework PPAs with three leading electricity supply companies in the UK. The terms of the PPAs enable the Group to sell up to 520MW of renewable energy, on pre-agreed terms, to the three electricity suppliers. The 520MW contracted under the PPAs represents a significant proportion of the UK's current requirement for ROCs.

#### **The renewable energy opportunity**

Since the Kyoto summit on climate change in 1997, where standards were proposed for developed nations to reduce their level of greenhouse gas emissions, political pressure concerning the preferred use of renewable energy to produce "green" power has increased dramatically.

In particular, the EU requires that member states adopt national targets for renewables which are consistent with reaching the Commission's overall target of 22.1 per cent. of electricity from renewable sources by 2010.

Historically, the UK has generated one of the lowest proportions of renewable energy of any of the major European countries. The Directors believe that, following recent renewables legislation, the UK system is now regarded as amongst the most robust in the world, with a legislative framework laid down until 2027. In April 2002, the UK Government introduced a target of 10.4 per cent. of electricity to be generated from renewable energy sources by 2010. This compares with a target of 4.3 per cent. and an actual level of generation of 2.4 per cent. in the year ended 31 March 2004. In November 2004, the UK Government amended the legislation to increase this target to 15.4 per cent. by 2015 indicating the UK Government's continued commitment to renewable energy generation in the UK.

#### *Renewables Obligation Order*

The RO obliges UK electricity suppliers to source an increasing percentage of their output from renewable sources or pay a penalty (the "ROC Buy-Out") based on how far they fall short of a target percentage. The aggregated ROC Buy-Outs are then paid out to renewables obligation certificates ("ROCs") surrendered by the electricity supplier to Ofgem under a system known as ROC Recycling.

The Company estimates that more than 52.7 million MWh per annum of electricity is required to be generated from renewable sources by 2016 under the RO. This compares with an actual level of 7.1 million MWh per annum for the year ended 31 March 2003. The House of Lords Science and Technology Select Committee Report ("Renewable Energy: Practicalities" 4th Report of Session 2003-4) concluded that the UK was unlikely to achieve more than 7.5 per cent. of electricity generated from renewable energy sources by 2010, in comparison with the target of 10.4 per cent.

The Directors believe, therefore, that the market for renewable energy generation will need to grow substantially to meet the target requirements.

### *Climate change levy*

In addition to the introduction of the RO, the UK Government is also exempting renewable electricity and electricity generated by combined heat and power plants from the climate change levy ("CCL"). The CCL was introduced in April 2001 and applies to energy used in industry, commerce and the public sector. Under the scheme, users receive a levy exemption certificate ("LEC") if they opt for electricity and heat produced from renewable sources. The LEC exempts the holder from paying the CCL.

The Directors believe that the combined impact of the RO and CCL creates a significant premium in the price of renewable electricity compared with the price generally achievable for conventionally generated electricity as illustrated in Table 1 below:

**Table 1**

	£ (per MWh)
ROC Buy-Out <sup>1</sup>	30.51
ROC Recycling <sup>1,3</sup>	22.92
LEC <sup>2</sup>	4.30
Premium to conventionally generated electricity	<u>57.73</u>

Notes:

- 1 Ofgem's second annual report on the RO, February 2005. Figures used relate to the year ending 31 March 2004, being the latest available price for ROC Recycling.
- 2 Ofgem Consultation document, entitled Revision of Guidelines on Green Supply Offering, March 2005.
- 3 Actual level of the ROC Recycling paid varies dependent on achievement of the obligations under the RO.

### **Power purchase agreements ("PPAs")**

Investors and financiers considering funding a renewable power plant usually require some certainty that the resulting electricity and associated benefits command a sufficient price for as long as possible into the future.

A study from the National Audit Office for the DTI issued on 11 February 2005 stated that a major impediment to development of renewable energy projects based on biomass was that developers found it difficult to secure long-term power purchase agreements with an electricity supplier at prices which made the projects commercially viable. The Directors believe that the Company's ability to secure its income stream in advance under the PPAs is key to reducing the risks associated with any new project and will grant the Company an advantage in negotiations to acquire new plant.

A wholly owned subsidiary of the Company, KP Renewables (Operations) has agreed PPAs with three UK electricity supply companies for the right to sell them up to 520MW of renewable energy. Instead of signing forward power purchase agreements on a project by project basis, KP Renewables (Operations) has agreed framework PPAs with the electricity supply companies set out below. The framework allows for individual PPAs to be signed on pre-agreed terms each time the Group builds or acquires a project, at the Group's sole discretion, which significantly reduces the cost, time and uncertainty associated with negotiating individual agreements.

(i) *British Gas*

Under an agreement dated 17 November 2003 (as amended by an amendment agreement dated 31 January 2005), British Gas has agreed to purchase the electricity and associated benefits for up to 300MW of renewable capacity from plant nominated by KP Renewables (Operations) prior to 30 November 2006 or, if the aggregate number of ROCs which have been transferred to British Gas as at 31 December 2005 is less than 30,000 ROCs, 31 December 2005. British Gas's commitment to purchase the electricity and associated benefits from plant nominated by KP Renewables (Operations) continues until the earlier of (i) the tenth anniversary of the applicable facility start date and (ii) 31 March 2016. The purchase price comprises an element for the electricity and a percentage of the value for each of the associated benefits, including the ROC Buy-Out and ROC Recycling payments, LECs and other benefits. There is an annual

reconciliation of the total payments made per MWh. If the annual payment is less than the agreed floor price, a further payment by British Gas is payable to bring the payment per MWh up to the floor price.

(ii) *Scottish & Southern ("SSE")*

Under an agreement dated 4 July 2003, SSE has agreed to purchase the electricity and associated benefits from up to 70MW of renewable capacity from plant nominated by KP Renewables (Operations) prior to 4 July 2006. SSE's commitment to purchase the electricity and associated benefits from plant nominated by KP Renewables (Operations) continues until 30 June 2012. SSE has the option to extend the agreement on reasonable commercial terms for a further 3 years. The purchase price comprises an element for the electricity, and a percentage of the value for each of the associated benefits, including the ROC Buy-Out and ROC Recycling payments, LECs and other benefits. There is an annual reconciliation of the total payments made per MWh. If the annual payment is less than the agreed floor price, a further payment by SSE is payable to bring the payment per MWh up to the floor price.

(iii) *BizzEnergy*

Under an agreement dated 30 July 2003 (as amended by an amendment agreement dated 16 May 2005), BizzEnergy has agreed to purchase the electricity and associated benefits from up to 150MW of renewable capacity from plant nominated by KP Renewables (Operations) prior to 30 June 2008. BizzEnergy is required to purchase the electricity and associated benefits from plant nominated by KP Renewables (Operations) for 10 years from the operational start date of each project. The purchase price comprises an element for the electricity, and a percentage of the value for each of the associated benefits including the ROC Buy-Out and ROC Recycling payments, LECs and other benefits. An effective floor price is provided by a fixed minimum price for the electricity element and a fixed percentage of the ROC Buy-Out price. The agreement with BizzEnergy is conditional upon KP Renewables (Operations) or the Company having procured Admission with a combination of a fund raising and/or availability of a facility enabling either company to call for equity subscriptions in excess of £5.0 million, or any other equity fund raising in excess of £5.0 million on or before 30 June 2005.

Further details of the PPAs are set out in paragraph 5 of Part V of this document.

### **Aggregating model**

The Group's business strategy is to create shareholder value by developing, building and acquiring a portfolio of renewable energy generating projects using an aggregation model to enable it to make nominations under the PPAs. The Group intends to facilitate the development of these projects through:

- establishing joint development projects with renewable energy developers and generators;
- bringing project structuring and financing expertise to each project; and
- investing an anticipated 20 to 50 per cent. of the equity required in each project.

The Company believes that one of the key issues for renewable generators is the extent to which they can maximise the value of the renewable energy they produce. As a result of the new electricity trading arrangements, pursuant to the Utilities Act 2000, electricity generators are obliged to enter into bilateral contracts to sell their output. Many renewable projects are relatively small and their developers are, therefore, in a weak negotiating position with power utility companies. The Directors believe that through the PPAs the Company is in a strong position to generate value by providing an easier route to market for small to mid-sized renewable energy generators.

The Company intends to develop a diversified renewable energy portfolio of projects which will not be reliant on a single renewable energy technology. It is proposed that the portfolio will initially comprise biomass and wind renewable energy projects for the following reasons:

(i) *Biomass*

The Directors believe that there is significant potential in biomass-related projects. Biomass projects can be categorised in three ways; biomass (the use of fuel crops or agricultural wastes to generate electricity); biogas (the collection of landfill gas or digestion of organic wastes); and "Carbon Recycling" (the processing of carbon-rich waste streams to produce a synthetic gas which can be used to generate power).

The Directors believe that Carbon Recycling will offer significant opportunities going forward, principally due to increasing pressure to reduce the quantity of waste material sent to landfill sites. The UK Government has mandated local authorities to reduce volumes of biodegradable waste being sent to landfill sites and also introduced legislation significantly to increase landfill taxes, currently by £3 per tonne of landfill waste per annum. The Company believes that these measures will create an attractive environment for projects which convert waste into energy by advanced thermal processes (such as Gasification and Pyrolysis) as these projects can benefit from a dual revenue stream, comprising gate fees for processing the waste and a premium price obtained for renewable electricity under the RO.

(ii) *Wind*

The Directors believe that onshore wind power projects can provide an alternative opportunity to fulfil the potential of the PPAs within the initial timeframe to 2006. Wind power is becoming an established technology with almost 40,000 MW installed worldwide and with an improving UK planning regime for onshore wind power as a result of an expected change in planning guidelines.

### **Development process**

It is intended that projects will be co-developed with partners and held in ring-fenced SPVs allowing the Group to develop and pro-actively manage a number of separately financed discrete projects. The Company intends to invest between 20 and 50 per cent. of the equity required in each project, with the equity balance being funded by the joint development partner or other third party investors.

The Offer for Subscription, if fully subscribed, will raise £15.7 million (net of expenses) which will provide the Group with sufficient working capital for its current requirements (estimated at £2.85 million to December 2006) and enable it to invest, on a discretionary basis, together with its joint development partners or investors, in renewable energy projects.

In order to fulfil the maximum 520MW contracted under the PPAs, it is estimated that projects with an aggregate £100 million of equity investment (based on the Directors' assessment of currently available project debt) will be required. It is the Company's intention to own no more than 50 per cent. of the equity of any one project. On the basis of a 50 per cent. equity interest, the Company will require up to approximately £50 million to finance its investments in full. The Company will consider the use of the various alternatives available which could encompass further issues of equity (including the possible use of an equity call option facility) and targeting projects which attract enhanced capital allowances as set out below.

The Company will seek to enter into contracts for more than 520MW as and when such contracts become available. Correspondingly, the Company will seek to invest in projects which would give rise to more than 520MW of renewable energy in aggregate.

#### *Equity call option facility*

The Directors have held preliminary discussions with a third party funder regarding a facility which would provide the Company with the ability to draw up to £45 million over three years for project investment and working capital requirements. The third party funder would receive equity in the Company in consideration for any funds advanced. The terms of such facility are yet to be finalised.

### *Enhanced Capital Allowances*

On 20 December 2004, KPR entered into an agreement with Ward Consultancy PLC ("Ward"), a UK-based independent financial adviser. Under the terms of the agreement, Ward and the Company will co-operate with a view to developing CHP schemes. Such schemes are attractive for investors as they provide tax benefits in the form of enhanced capital allowances. Any CHP scheme undertaken pursuant to the agreement may use funds sourced by Ward from its client base (up to £100 million per annum, in aggregate). Whilst the Company does not intend to invest its own funds in such projects, it does intend to manage the projects in return for a fee and the power generated would be used to fulfil a proportion of its PPAs.

Construction of projects is expected to be undertaken on a "turnkey" basis to minimise construction risk, and satisfy requirements for non-recourse debt finance. Operations and maintenance are expected initially to be out-sourced to equipment suppliers to gain the benefit of long-term plant warranties, with the future potential for the Group to manage and administer operations centrally for a portfolio of projects. A key focus of the Company's management team is expected to be risk management and the maximisation of value in the asset portfolio (for example, through securing improved financing terms in the future on a portfolio basis). The Group intends to select project partners on the basis of bringing complementary skills and assets, particularly in relation to site selection, local contacts and negotiations and sourcing of fuel supply for biomass-related projects.

The Group intends to enter into projects at differing stages of their development. The Group expects to work with project developers to structure projects commercially in order to secure non-recourse debt financing. This will involve the negotiation of appropriate contracts for the construction, connection and operation of the project and verification of all necessary consents. Initially the Group expects to become involved in projects which have already secured (or are near to securing) planning permission so that the time frame to commercial operation is reduced. The Group then expects to enter into projects at earlier stages of development (for example prior to receiving planning consent) to provide a pipeline of projects for future construction.

### *Planning permission*

Obtaining planning permission for renewables projects can be time-consuming depending upon factors such as location, type of technology, and likely visual and environmental impact. The Group intends to maximise the prospect of obtaining planning permission (if it has not already been obtained) by:

- selecting development sites where the impact of a project is minimised and which are not subject to special planning restrictions;
- engaging closely with the local community and providing appropriate environmental impact studies and assessments; and
- basing biomass-related plants largely within existing industrial and commercial facilities, where planning constraints are often eased.

The UK Government has recently published Planning Policy Statement 22: Renewable Energy, which provides guidelines for planners and is intended to improve the planning environment particularly in respect of onshore wind farms.

### *Project approval and monitoring*

The Group will perform due diligence on all projects prior to making an investment. This will include technical, commercial, financial and legal evaluation of each project. Project developments, construction projects and operations are intended to be reviewed and monitored by management on a weekly basis against budget so that any necessary corrective actions can be promptly identified. The Company intends that third party project operators will be contractually required to meet legal and environmental requirements for the project and will be subject to compliance, reporting and audit by the Company.

### **Joint development agreements**

At the date of this document, the Group has negotiated the following joint development agreements with development partners in wind and biomass-related projects to facilitate its aggregating model. Typically any

projects which are to be developed jointly will be undertaken on the basis of sharing development costs. The joint development agreements provide a non-binding framework upon which specific projects may be undertaken in the future. Currently it is not possible to identify the level of investment required by the Company to enter into individual projects under such agreements.

(i) *Community Windpower Limited ("Community Windpower")*

Community Windpower is a small independent developer of wind projects and is working on a number of sites in Scotland at a pre-planning stage, which may provide opportunities in the future. It has also secured planning permission for an 18MW project in the West of Scotland. The joint development agreement provides for cooperation in identifying wind projects in the UK and sets out a framework for the parties to cooperate in developing, financing, constructing and owning identified wind projects in the UK. The parties have agreed the form of an IPDA which the parties intend to enter into for any projects that they agree to develop jointly. The IPDA provides, *inter alia*, for the scope of the project, the roles of the parties, the formation of an SPV and the commercial arrangements between the parties including exclusivity and confidentiality provisions and the project's budget.

(ii) *Atlantic Energy Limited ("Atlantic Energy")*

Atlantic Energy is an independent developer of wind projects with a particular expertise in the initial development and permitting of sites. The joint development agreement provides for cooperation in identifying wind projects in the UK and sets out a framework for cooperation between the parties in the development of a range of projects. In particular, negotiations are in progress for the joint development of a 26MW and a 28MW site in the West of Scotland, both of which are expected to apply for planning permission in mid 2005. The Company has established two companies (North Otter Windfarm Limited and Lephinmore Windfarm Limited) for use as SPVs in respect of this joint development agreement.

(iii) *Grosvenor Waste Management Limited ("Grosvenor Waste")*

Grosvenor Waste is a waste contractor currently recycling more than 250,000 tonnes of waste per annum at its Crayford and Wolverhampton sites. The joint development agreement provides a framework for collaboration on a range of opportunities, principally based on site. An IPDA has been agreed for a phased project starting with a Phase I 0.25MW pilot plant processing waste wood, with potential expansion to 5MW in Phase II and then up to 20MW in Phase III. An IPDA has also been agreed for a 0.25MW pilot plant processing paper and plastic waste at Smurfit Limited's paper mill located at Snodland in Kent, with the potential to expand to 5MW. In each case, although the IPDA has been agreed, both parties' obligations are subject to their joint agreement of a project budget. The Company has established two companies (KP Snodland Power Limited and KP Crayford Power Limited) for use as SPVs in respect of this joint development agreement.

(iv) *Gem Operations (UK) Limited ("GEM")*

GEM (formerly Graveson Energy Management Limited) Operations Limited has an exclusive licence from its parent company, Graveson Energy Management Limited to supply its pyrolysis technology as a sustainable process, capable of diverting waste material from existing disposal methods into a source of renewable energy. GEM has built two gas converters, a one-third scale pilot project and a full scale 1500kg/hour plant generating 2MW at a landfill site near Bridgend in Wales. Kwikpower International has agreed an IPDA with GEM which will provide for the joint development of a project at Crayford utilising the GEM gasification technology and has assigned its rights and benefits under such agreement to the Company. Although the IPDA has been agreed, both parties' obligations are subject to their joint agreement of a project budget.

(v) *Renewable Energy Developments Limited ("RED")*

RED is a small developer with experience in both thermal and wind projects. The joint development agreement provides a framework for cooperation in the development of a range of projects including wind and biomass-related projects.

(vi) *WasteGen (UK) Limited ("WasteGen")*

WasteGen is a UK project developer utilising rotary kiln Pyrolysis technology 5-6MW modules developed in Germany and with over 18 years operating experience. Potential projects include a 6MW plant in Corby which has planning permission for a similar project and will utilise municipal solid waste and sewage sludge as feedstock. Kwikpower International has negotiated an IPDA for the Corby project with WasteGen and has assigned its rights and benefits under such agreement to the Company. Although the IPDA has been agreed, both parties' obligations are subject to their joint agreement of a project budget.

The Group intends to enter into negotiations on joint development agreements with a number of other developers.

### **Competition**

The Directors recognise a general competitive threat from those entities that provide renewable energy to UK power purchasers. In addition to this, the Company faces two distinct forms of competition in the renewable energy business:

#### *Competitive pressure in renewable energy development*

In securing projects to develop and build, the Company faces competition from other developers which include the development arms of major electricity generators in addition to specialist developers of renewable energy. Despite this, the renewable energy market remains fragmented with many small developers. The major electricity generators have tended to concentrate on a small number of larger-sized projects. The Group believes that it can secure participation in profitable projects with smaller developers through the combination of its PPAs, expertise and experience of its management in implementing projects, and, subject to the availability of sufficient funding, its ability to provide equity investment in renewable energy projects.

#### *Competitive pressure in the sale of renewable energy*

The Group will also face price competition from other renewable energy generators selling their renewable energy output into the market. However, the Company believes that this threat and the resultant price pressure is mitigated by the floor price provisions in its PPAs and the fact that the Government is forecasting that the market will be short of its target until at least 2010.

### **Business organisation**

The Company's business model relies on a small number of experienced individuals with backgrounds in the energy and renewables markets to manage a discrete number of development projects. Currently, the Company employs the Directors and two development personnel. However, it intends to build a central management team comprising up to 12 professionals supported by 4 administrative staff, to be recruited as the volume of business grows and to be substantially completed by the end of 2006. The Directors bring together significant expertise in the following key business areas:

- development, financing and asset management of renewable energy projects;
- commercial structuring of power transactions and risk management; and
- financial control, governance and reporting to meet public company shareholder requirements.

### **Directors**

#### *John Bryant, 58, Non-executive Chairman*

John Bryant is currently President of Cinergy Global Power Inc. and Vice President of Cinergy Corp., the US based electric and gas utility. He has extensive experience in the private power industry through building an international global energy operation with Cinergy and previously as Generation Director of Midlands Electricity. This encompassed electricity generation, electric and gas distribution and gas and renewable



energy trading. He has broad commercial and financial experience in developing and managing new business in the engineering sector gained from 15 years' experience in international oil and gas services, both in the US and the UK. He was previously with the The BOC Group, the global industrial gases group and Unilever. He graduated in Economics with a BA from Nottingham University and also holds an MSc in Economics from Reading University.

*Dr James Watkins, 51, Chief Executive*

James Watkins has been involved with technologies for producing alternative fuels and energy solutions from waste since 1996. He also serves as the CEO of Kwikpower International. Since acquiring Kwikpower International in December 2000, he has focused on developing the business internationally, in particular on projects in the renewable fuels and waste to energy sectors including the acquisition and development of related technologies. However, for the past two years he has focused on developing the UK business of the Company and KP Renewables (Operations). He has experience within the oil and gas industries and in particular he has been involved in developing the use of alcohols in alternative fuel formulations. He has also been a frequent speaker at conferences on biofuels and renewable energy. He graduated from the University of Notre Dame (BSc) with a double major in Chemistry and Microbiology & Immunology and has gained a PhD in Microbiology and Immunology.

*Robert F Smyth, 47, Finance Director*

Robert Smyth graduated with a BSc Honours degree in Economics from Cardiff University and trained and qualified as an Accountant with Ernst & Young in London. He remained in the profession until 1988 since when he has held a variety of senior finance and general management positions with Unigate, SmithKline Beecham and other businesses operating in highly competitive markets. During the past 10 years Robert has worked in Europe, USA, Russia, East Africa and South-East Asia. In 2003 he lived and worked in Malaysia advising a group of offshore trading companies before joining the AIM listed Cavanagh Group as Group Finance Director. Robert earned his MBA from the University of Bath, School of Management in 1994 and in 2001 qualified with the Institute of Directors as one of the first Chartered Directors in the UK.

*Stephen Drummond, 42, Non-executive Director*

Stephen Drummond is the founder and managing director of CO2e.com, a company owned by Cantor Fitzgerald, Mitsui, Mr Drummond and other individuals, which is a broker in renewable energy and greenhouse gas markets. Prior to joining CO2e.com he was a partner at PricewaterhouseCoopers in Sydney, where he led project finance teams for numerous power plants in Australia and Indonesia. He also served as PricewaterhouseCoopers' global leader for Climate Change Financial Advisory Services. Prior to this he gained strategic and commercial experience at National Power (UK and China) developing and financing new investments. He graduated in Mechanical Engineering in 1985 from Leeds University and gained an MBA in 1993 from Warwick Business School.

*Dr David Lindley OBE, 65, Non-executive Director*

David Lindley has more than 25 years' experience in the renewables and power industry. He is also currently non-executive chairman of Ocean Power Delivery. He was founder and managing director of National Wind Power, the UK's leading developer and operator of both onshore and offshore windfarms and now a subsidiary of RWE Innogy. He was founder and managing director of Wind Energy Group, a company jointly owned by Taylor Woodrow, British Aerospace and GEC that designed and manufactured wind turbines and rotor blades and constructed windfarms in the USA, Italy, Spain and the UK. He has also held senior engineering positions in the USA and New Zealand. He graduated with a BSc in Mechanical Engineering at the University of Salford in 1962, was awarded a PhD from the University of Wales in 1966 and a Certificate in Advanced Engineering Design from the University of Cambridge in 1967. He was elected a Fellow of the Royal Academy of Engineering in 1993 and was appointed an OBE in 1998 for his services to renewable energy and the wind turbine industries.

*David Lloyd-Jacob CBE, 67, Non-executive Director*

David Lloyd-Jacob was originally involved in market research and analysis of metals and fossil fuels. He then managed Consolidated Gold Fields' businesses in the USA and became Chief Financial Officer and

Managing Director of the UK parent company. He is a former director of Johnson Matthey and Newmont Mining. Following this he was Chairman and Chief Executive Officer of Levinson Steel, a leading US structural steel distributor. For the past six years, until his retirement in the summer of 2004, he was involved with the composites industry as Chairman of Fibaflo Composites, a leading supplier to the MRI scanner industry. He is currently Director of UK Sponsorships of the Mountbatten Programme, a US-UK not-for-profit educational programme. He is also a marketing consultant for Neptune Radar, a development stage technology company. He graduated in Economics with an MA from Oxford University.

#### *Other Key Personnel*

The Company is in discussion with a number of people who would fill senior positions within the staff, notably on the development and project finance of projects, and in particular:

#### *Dr Graeme Fairbairn, 54, Head of Project Development*

Graeme Fairbairn has extensive technical, commercial, financial and managerial experience gained principally in the gas and power industries. In 2002 he became a founder director of MWe Consult, an energy advisory company, specialising in CHP and renewable energy projects. Previously, he was European Vice-President of Rolls-Royce Power Ventures (the power development and investment arm of Rolls-Royce plc), where he successfully developed many power projects primarily in the UK and Europe. Prior to that, he worked for the Power Generation division of British Gas, where he helped establish businesses in electricity generation and in electricity trading. He also gained experience in process plant management for British Gas, operating liquid natural gas plants and gas compressor stations. His career began with the design of gas turbines with GEC Gas Turbines, and the manufacture of steam turbines with CA Parsons.

Graeme Fairbairn is a Chartered Engineer, with a doctorate in fluid flows in turbo-machinery. He is the author of many papers and conference presentations on technical and commercial subjects. He is currently a member of the UK Government's Climate Change Projects Office Advisory Board. He is also a Director of Renewable Energy Developments Limited.

#### *Chris Moore, 51, Senior Project Developer*

Chris Moore has over 25 years' experience of structured project financing, business and project development in international markets in both banking and industry, at senior management and board level. He has substantial international experience across a broad spectrum of industries encompassing the power, oil and gas, petrochemical, agro-industry, infrastructure and defence sectors in Europe, Middle and Far East and the Former Soviet Union. Previously, he was Senior Development Manager with Rolls-Royce Power Ventures, where he developed power project opportunities in Spain, Italy and the Former Soviet Union. In addition he has held positions as Commercial Director and Deputy Managing Director of Wood Group Power Systems, a company focusing on packaging refurbished power plants, and as Head of Structured Finance for the JP Kenny Group of companies, one of the world's leading oil and gas pipeline consultancy practices. Within the banking sector he has held a number of senior positions including that of Director, Structured Export Finance Division of Singer & Friedlander. He has published articles and delivered various international conference papers on structured project finance, risk mitigation and project development.

#### **Kwikpower International**

Kwikpower International holds 34,000,200 Ordinary Shares which, following completion of the Offer for Subscription (assuming that subscriptions are received for the maximum number of Subscription Shares pursuant to the Offer for Subscription) will represent 55.5 per cent. of the Company's issued ordinary share capital. Kwikpower International is 100 per cent. beneficially owned by Dr James Watkins.

Kwikpower International and Dr James Watkins have undertaken to the Company that Kwikpower International will exercise the voting rights attaching to the Ordinary Shares held by it in such manner so as to maintain the independence of the Board.

The Company has entered into the Kwikpower International Services Agreement which provides for the provision of services requested by the Company from named individuals (Dr James Watkins, Mr Bernard Rolfe and Mr Chris Moore) who will devote the majority of their time towards provision of such services for

a fixed fee. The services to be provided include assistance in business development, evaluation of new technology, commercial and technical support and contract management and administration. Further details of the Kwikpower International Services Agreement are set out in paragraph 3(f) of Part V of this document.

### **Corporate governance**

The Directors support high standards of corporate governance and confirm that, following Admission, they intend (having regard to the current stage of development of the Company) to comply, so far as practicable, with the Combined Code.

The Company has established an audit committee, comprising David Lloyd-Jacob (Chairman) and Dr David Lindley, which is responsible for both ensuring that the financial performance of the Company is properly reported on and monitored and for reviewing the auditor's reports relating to accounts and internal control systems. It will also monitor the integrity of any formal announcements made relating to the Group's performance.

A remuneration committee, comprising David Lloyd-Jacob (Chairman) and Stephen Drummond, is responsible for the review and subsequent recommendation to the Board of the scale and structure of remuneration for senior management (in particular the executive Directors), including the terms of employment, award of annual bonuses, and proposals for the granting of share options to employees under the Share Option Plan or any subsequent share option plan in place from time to time.

A nominations committee, comprising John Bryant (Chairman) and Stephen Drummond, will make recommendations on all new Board appointments.

The Company has adopted a share dealing code for Directors and employees and will take proper steps to ensure compliance by the Board and relevant employees with the provisions of the AIM Rules relating to the dealings in the Company's securities.

### **Lock-in and orderly marketing arrangements**

On completion of the Offer for Subscription, the Directors (excluding Dr James Watkins) will hold 1,795,000 Ordinary Shares, representing approximately 2.93 per cent. of the issued share capital of the Company (assuming that the maximum number of Subscription Shares are subscribed pursuant to the Offer for Subscription) and Kwikpower International will hold 34,000,200 Ordinary Shares, representing approximately 55.5 per cent. of the issued share capital of the Company (assuming that the maximum number of Subscription Shares are subscribed pursuant to the Offer for Subscription).

Each Director has undertaken to the Company and Deloitte & Touche LLP that, save in certain limited circumstances, he will not dispose of Ordinary Shares for a period of twelve months following Admission and for a further period of twelve months thereafter he will not dispose of Ordinary Shares without the prior consent of Deloitte & Touche LLP.

Kwikpower International, pursuant to an Orderly Marketing Agreement, has also undertaken to the Company and Deloitte & Touche LLP that, save in certain limited circumstances, it will not dispose of any Ordinary Shares for a period of twelve months following Admission and that for a further period of twelve months thereafter Kwikpower International will not dispose of such Ordinary Shares without the prior consent of Deloitte & Touche LLP.

Stephen Drummond is a director of CO2e.com Limited, a company which is wholly-owned by CO2e.com LLC. Mr Drummond has a beneficial interest of less than 10 per cent. in CO2e.com LLC. On Admission, CO2e.com Limited will hold 400,000 Ordinary Shares (being equivalent to £500,000 at the IPO Subscription Price). CO2e.com Limited has undertaken to the Company that, save in limited circumstances, it will not dispose of more than 20 per cent. of such Ordinary Shares in any 30 day period during the twelve months following Admission.

On Admission BizzEnergy Limited will hold 148,000 Ordinary Shares (being equivalent to £185,000 at the IPO Subscription Price) and has undertaken to the Company that, save in limited circumstances, it will not

dispose of more than 20 per cent. of such Ordinary Shares in any 30 day period during the twelve months following Admission.

In addition previous directors and certain shareholders have entered into orderly marketing agreements with the Company.

Derek Bainbridge holds 300,000 Ordinary Shares and has undertaken to the Company that, save in limited circumstances, he will not dispose of any such Ordinary Shares for a period of twelve months following Admission.

Philip Taylor holds options in respect of 600,000 Ordinary Shares and has undertaken to the Company that, save in limited circumstances for a period of 2 years from 27 October 2004, he will not dispose of any Ordinary Shares arising from the exercise of such options for a period of twelve months following such exercise.

Rob McGrigor holds 600,000 Ordinary Shares and has undertaken to the Company that, save in limited circumstances, he will not dispose of any Ordinary Shares arising from the exercise of such options for a period of twelve months following Admission.

Peter O'Kane holds 285,000 Ordinary Shares and has undertaken to the Company that, save in limited circumstances, he will not dispose of any such Ordinary Shares for a period of twelve months following Admission.

### **Share incentives**

The Directors believe that the success of the Company depends to a high degree on the future performance of the management team. The Directors also recognise the importance of ensuring that all employees are well motivated and identify closely with the profitability of the Company. Accordingly the Company has established the Share Option Plan in respect of ten per cent. of the issued share capital on Admission.

Further details of the Share Option Plan are set out in paragraphs 3(b) and 6 of Part V of this document.

The Board has resolved not to grant further options, pursuant to the Share Option Plan, over Ordinary Shares of more than 10 per cent. of the Company's issued share capital from time to time.

### **Dividend policy**

The Directors' current intention is to retain the Company's earnings in the foreseeable future to finance growth and expansion. It is, however, the Directors' intention to pay dividends when, in the view of the Directors, it is appropriate to do so.

### **Financial information**

The financial information contained in Part III of this document reflects the fact that the Company is at an early stage of its operations. Subsequent financial statements for the Group will reflect trading, and if applicable, any investments in joint ventures and derivatives and other financial instruments in respect of debt financing. The Company also intends to adopt, as appropriate, any relevant International Financial Reporting Standards.

### **Current Trading and Prospects**

The Company is currently non-trading. On the assumption that adequate funds are subscribed by Qualifying Subscribers, the Directors are confident about the future prospects of the Company.

The Directors have identified several risks which should be taken into account when considering the business. These include risks related to the early stage of development and limited operating history of the Company and its dependence on the PPAs. These and other risk factors are discussed further in Part II of this document.

## Reasons for the Offer for Subscription

The Offer for Subscription will, if fully subscribed, raise £15.7 million (net of expenses) which will provide the Group with sufficient working capital for its current requirements and enable it to invest, on a discretionary basis, together with its joint development partners or investors, in renewable energy projects.

## Offer for Subscription

The Company is offering to Qualifying Subscribers a total of up to 20,000,000 Ordinary Shares on the following basis:

- up to 10,000,000 Pre-IPO Shares at 40 pence per Pre-IPO Share payable in full on application. The issue of Pre-IPO Shares is unconditional; and
- up to 10,000,000 IPO Shares at 125 pence per IPO Share payable in full on application. The issue of IPO Shares is conditional on Admission occurring on or before 31 July 2005.

Assuming that the Company raises a minimum of £3.7 million (gross) pursuant to the Offer for Subscription, the Company intends to seek admission of the Ordinary Shares to trading on AIM as soon as reasonably practicable.

If the Company does not raise the maximum amount available under the Offer for Subscription, it will consider making a further offer for subscription to the public. In the event that sufficient funds are not raised and Admission does not occur on or before 31 July 2005, funds subscribed by Qualifying Shareholders for IPO Shares only will be fully refunded.

Application may be made by Qualifying Subscribers for a minimum of 3,000 Pre-IPO Shares and 3,000 IPO Shares which, at the Subscription Prices equates to £4,950. **Any application under the Offer for Subscription must be for both the Pre-IPO Shares and the IPO Shares in the ratio of one IPO Share for every Pre-IPO Share so subscribed.** All allotments of the Subscription Shares will be at the absolute discretion of the Company. The Company will determine whether any Subscription Shares are issued to any person completing and returning an Application Form. Qualifying Subscribers should be aware that the Company may reject (and not issue any Subscription Shares in relation to) any Application Form or accept any Application Form and issue all or part only (as determined by the Company in its absolute discretion) of the Subscription Shares applied for pursuant to the Application Form.

Applications for Subscription Shares must be made in accordance with the Application Form. To be valid, completed Application Forms and payment in full must be received by 3.00 p.m. on 8 June 2005 (or such later date as the Company agrees in its absolute discretion).

On issue, all Subscription Shares will rank *pari passu* in all other respects with all other Ordinary Shares in existence prior to Issue.

Further details in relation to the Offer for Subscription, including the terms and conditions on which the Offer for Subscription is made, are set out in Part IV of this document.

## ACTION TO BE TAKEN

If you wish to apply for Subscription Shares under the Offer for Subscription you should complete an Application Form in accordance with the instructions set out therein and in Part IV of this document. You should then return the completed Application Form with the appropriate remittance for the full amount payable on application, to be received no later than 3.00 p.m. on 8 June 2005, by post or by hand to Hunton & Williams, Fleetway House, 25 Farringdon Street, London EC4A 4AB.

Your attention is drawn to the further information set out in Part IV of this document.

## **PART II**

### **RISK FACTORS**

This Part II contains the principal risk factors that the Directors believe to be associated with an investment in the Company. **The risks listed below do not necessarily comprise all the risks associated with an investment in the Company and are not set out in any particular order of priority.**

#### **Early stage of development and limited operating history**

The Group is at an early stage of development, has not yet traded and may incur significant losses from operations in the near term. The Group has an extremely limited operating history upon which its performance and prospects can be evaluated and faces the risks frequently encountered by developing companies. These risks include the potential inability to attract or retain key personnel, as well as uncertainty as to which areas within the renewable energy industry to target for growth and expansion. In addition, there can be no assurance that the Group's proposed operations will be profitable or produce a reasonable return, if any.

#### **Dependence on the PPAs**

The Group is, and for the foreseeable future will be, dependent on a limited number of contracts with electricity supply companies and the competitiveness of the terms of these contracts. The benefits to which the Group is entitled under the PPAs are dependent on the continuation and competitiveness of those agreements. Such a concentration places considerable dependence on each contract in achieving the business plan. A material breach of a framework PPA by KP Renewables (Operations) could have a significant impact on the Group.

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

The Group's performance depends significantly on the efforts and abilities of its key senior personnel. Dr James Watkins has substantial experience of the renewable energy industry and has been central to the development of the Company. The unexpected loss of the services of Dr James Watkins or other key members of management could have an adverse effect on the Group's operating results. There can be no assurance that the Group will be able to replace key senior personnel if necessary in the future.

#### **Implementation of development projects**

The Group may not succeed in securing the supply of renewable energy on favourable terms due to increased competition from organisations with greater access to capital and other resources, the marketability of the terms of its PPAs or a shortage of supply of renewable energy developments. Projects may be delayed in development or construction or affected by electricity connection or property rights issues. In addition the Group will be dependent on the supply of equipment from manufacturers and contractors in order to construct renewable energy projects. The number and quality of the suppliers and the supply/demand balance may affect the Group's ability to procure and construct projects. As a result the Group's ability to achieve its business plan could be adversely affected.

#### **Less than maximum subscription**

If the Company raises less than the maximum amount available under the Offer for Subscription, the Company may have to delay or scale back the development of certain projects until it is able to raise sufficient project capital to fund the required project development costs.

#### **Funding requirements**

The Group may require access to additional funding in the future, and if the Group fails to obtain such funding it may need to scale back the development of its renewable energy portfolio. Debt finance may also not be available, or available on less favourable terms which would result in a greater requirement for equity

from the Group and/or earlier or higher payments to service debt. The Group has no control over the availability of funding.

### **Regulatory and political environment**

The market for renewable electricity generation is heavily influenced by EU and UK Government regulations and policies. There may be unforeseen changes in such regulation or policy, or other changes in the terms upon which renewable energy is accredited or compensated under the RO. Such changes could result directly or indirectly in a material reduction or abolition of the premium price received by producers of renewable energy. Legislative changes could also adversely affect the planning regime for renewable energy projects.

### **Revenues**

Energy production from the projects may be below expectation resulting in lower revenues. The price achieved for renewable energy, and in particular ROC Recycling, may be lower than forecast due to increased competition among renewable energy generators as a result of an increase in the number of completed projects. In addition, ROC recycling payments are currently subject to the credit risk of suppliers in the UK market making ROC Buy-Out payments.

### **Competition**

The Group faces competitive pressure in two main areas namely, renewable energy development and the sale of renewable energy. In securing projects to develop and build, the Company faces competition from other specialist developers and the development arms of major electricity generators. The Group also faces price competition from other renewable energy generators selling their renewable energy output into the market.

### **Development and operating costs**

The capital cost of developing, building, or acquiring renewable energy projects and/or operating and maintenance of the projects assets may be higher than anticipated due to competitive pressure in the market for those services and products. In addition, the consideration paid for the development, acquisition or building of renewable energy projects may not be available on favourable terms, which may reduce returns to the Group and/or increase capital requirements.

### **Influence of the principal shareholder**

On completion of the Offer for Subscription (assuming that the maximum number of Subscription Shares are subscribed pursuant to the Offer for Subscription), Kwikpower International will own approximately 55.5 per cent. of the Company's issued share capital. Dr James Watkins, the President and Vice Chairman of the Company, beneficially owns 100 per cent. and is CEO of Kwikpower International.

Inevitably as a consequence of Dr Watkins' shareholding and directorship, Kwikpower International will be able to exercise a significant amount of control over the business of the Company including the ability to elect and remove Directors, and its interests may not always be the same as those of other shareholders. In addition, this concentration of ownership may harm the market price of the Company's Ordinary Shares by:

- delaying, deferring or preventing a change of control;
- impeding a merger, consolidation, or other business combination involving the Company; or
- discouraging a potential acquirer from making a tender offer or otherwise attempting to obtain control of the Company.

Kwikpower International and Dr James Watkins have undertaken to the Company that Kwikpower International will exercise the voting rights attaching to the Ordinary Shares held by it in such manner so as to maintain the independence of the Board.

**No admission to AIM**

In the event that less than £3.7 million of gross proceeds are raised, the Company will retain that portion of gross proceeds represented by the sale of Pre-IPO Shares and the Company will not seek admission of the Ordinary Shares to trading on AIM. The Company's Ordinary Shares would therefore have no liquidity. Investors may therefore realise less than, or lose all of, their investment.

**Investment in AIM securities**

Shares traded on AIM are perceived to involve a high degree of risk and to be less liquid than the shares of companies whose shares are traded on the Official List. An investment in Ordinary Shares may also be difficult to realise. Prospective investors should be aware that the value of an investment in the Company may go down as well as up and that the market price of the Ordinary Shares may not reflect the underlying value of the Company. Investors may therefore realise less than, or lose all of, their investment.

**There has been no prior public trading market for the Ordinary Shares and the Company's share price may fluctuate substantially or decline, which could cause investors to lose a significant part of their investment.**

**International Financial Reporting Standards**

While the International Financial Reporting Standards ("IFRS") in place for 2005 have now been issued, there is still considerable uncertainty as to the precise requirements that will apply in 2005, since the EU has yet to endorse all of these standards. In particular, there remains uncertainty as to whether the international standards affecting financial instruments will be adopted by the EU.

The Group will adopt any relevant IFRS effective for each financial year on or after 1 January 2005. The adoption of IFRS may have a material impact on the Group's financial position and reported results, although it is not possible to quantify the impact at this time.



## **PART III - FINANCIAL INFORMATION**

### **PART A**

#### **FINANCIAL INFORMATION ON THE COMPANY**

The following is the text of an accountants' report on the Company by Moore Stephens, for the thirteen months ended 31 December 2004.

**MOORE STEPHENS**  
CHARTERED ACCOUNTANTS

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St. Paul's House,  
Warwick Lane,  
London EC4M 7BP

The Directors,  
KP Renewables PLC,  
Chiswick Park, Building Three,  
566 Chiswick High Road,  
Chiswick,  
London W4 5YA.

The Partners  
Deloitte & Touche LLP  
Stonecutter Court  
1 Stonecutter Street  
London  
EC4A 4TR

18 May 2005

Dear Sirs,

#### **KP RENEWABLES PLC ("THE COMPANY")**

We report in connection with the prospectus issued by the Company dated 18 May 2005 ("the Document"). In accordance with our instructions, we report on the financial information set out below relating to the Company and its subsidiaries (collectively "the Group"). This financial information has been prepared for inclusion in the Document.

The financial information does not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985 (as amended).

#### **Introduction and Basis of Preparation**

The Company was incorporated on 1 December 2003. Details of movements in share capital are set out in note 10.

On 28 May 2004, the Company was granted a certificate to trade under Section 117 Companies Act 1985.

We have reviewed the financial statements of the Company for the period from incorporation to 31 December 2004. The financial information is based on these financial statements, without adjustment.

No financial statements for the Company have been prepared or presented to the members of the Company for any period since 31 December 2004 and no dividends have been declared nor distributions made since the date of incorporation.

## Responsibility

The financial information is the responsibility of the directors of the Company, who approved its issue. The directors of the Company are responsible for the contents of the Document in which this report is included. It is our responsibility to form an opinion on the financial information set out below and to report our opinion to you.

## 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 amounts and disclosures in the financial information. It also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

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

## Going Concern

In forming our opinion, we have considered the adequacy of the disclosures made in Note 1 of the financial information concerning the net current liability position of the Group. In view of the significance of this uncertainty, we consider that it should be drawn to your attention, but our opinion is not qualified in this respect.

## Opinion

In our opinion, the financial information gives, for the purposes of the Document, a true and fair view of the state of affairs of the Company and the Group as at 31 December 2004 and of the results and recognised gains and losses and cash flows of the Group for the period then ended.

## Consent

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

## Consolidated Profit and Loss Account

		<i>13 months ended 31 December 2004</i>
	<i>Notes</i>	<i>£</i>
Administrative expenses	2	(220,951)
Loss on ordinary activities before and after taxation	11	<u>(220,951)</u>

## Consolidated Statement of Total Recognised Gains and Losses

There are no recognised gains and losses other than as shown above.

## Consolidated Balance Sheet

		<i>At 31 December 2004 £</i>
	<i>Notes</i>	
<b>Fixed assets</b>		
Intangible assets	6	514,791
<b>Current assets</b>		
Debtors	8	88,220
Cash at bank and in hand		10,740
		<hr/> 98,960
Creditors: amounts falling due within one year	9	(156,660)
Net current liabilities		<hr/> (57,700)
Net assets		<hr/> 457,091
<b>Capital and reserves</b>		
Called-up share capital	10, 11	404,464
Share premium account	11	273,578
Profit and loss account	11	(220,951)
Equity shareholders' funds	11	<hr/> 457,091

## Company Balance Sheet

		<i>At 31 December 2004 £</i>
	<i>Notes</i>	
<b>Fixed assets</b>		
Investments	7	345,000
<b>Current assets</b>		
Debtors	8	270,438
Cash at bank and in hand		5,712
		<hr/> 276,150
Creditors: amounts falling due within one year	9	(151,629)
Net current assets		<hr/> 124,521
Net assets		<hr/> 469,521
<b>Capital and reserves</b>		
Called-up share capital	10, 11	404,464
Share premium account	11	273,578
Profit and loss account		(208,521)
Equity shareholders' funds		<hr/> 469,521

## Consolidated Cash Flow Statement

		13 months ended 31 December 2004
	Notes	£
Operating loss		(220,951)
Creditors		136,664
Debtors		(65,630)
Shares issued in lieu of payment		1,250
<b>Net cash outflow from operating activities</b>		<b>(148,667)</b>
<b>Acquisitions and disposals</b>		
Net cash acquired with acquisition of subsidiary undertaking	7	14,367
<b>Net cash outflow before financing</b>		<b>(134,300)</b>
<b>Financing</b>		
Issue of ordinary share capital		95,040
Loan from parent undertaking		50,000
<b>Increase in cash</b>		<b>10,740</b>

### Material non-cash transactions

During the period, the Group had the following material non-cash transactions:

- On 31 March 2004, the Company acquired the entire issued share capital of KP Renewables (Operations) from Kwikpower International plc, Gibraltar ("KPI"), the Company's own parent undertaking, by issuing 34,500,000 ordinary shares of 1p each at par (see notes 7,10 and 13).
- On 30 March 2004, the Company issued 725,574 ordinary shares of 1p each in respect of monies collected by KP Renewables (Operations) totalling £202,000 (see notes 10 and 13). Originally, KP Renewables (Operations) was to issue shares; however, this was changed with the formation of the Company.
- During the period ended 31 March 2004, prior to its acquisition by the Company, KP Renewables (Operations) paid certain expenses on behalf of the Company, totalling £22,481 (see note 13).
- During the period ended 31 March 2004, prior to the acquisition of KP Renewables (Operations) by the Company, the Company lent KP Renewables (Operations) £10,000 net in the ordinary course of business. KP Renewables (Operations) also collected certain share monies payable to the Company totalling £4,750 (see note 13).
- On 31 December 2004, the Company issued 3 million ordinary shares of 1p each to various third party investors as part settlement (£30,000) of a loan (£50,000) made indirectly to it by that company (see notes 9 and 13).

## **Notes to the financial information**

### ***1. Accounting policies***

#### ***Accounting convention***

The financial statements are prepared under the historical cost convention, and in accordance with generally accepted accounting principles in the United Kingdom.

#### ***Going Concern***

The financial statements for the 13 months from 1 December 2003 (date of incorporation) to 31 December 2004 have been prepared on the going concern basis. This has been applied taking into account the financial support given to the Company by its current immediate parent undertaking, KPI, and the proposed raising of equity finance and subsequent listing of the Company's shares on AIM. If this is not successful, net assets would need to be decreased by £576,687 being the goodwill on consolidation of £514,791, and debtors (prepayments) of £61,896.

#### ***Basis of consolidation***

The Group financial statements consolidate the financial statements of the Company and its subsidiary undertakings, whether held directly or indirectly. No profit and loss account is presented for the Company as permitted by section 230 of the Companies Act 1985.

#### ***Goodwill***

Goodwill is the difference between the cost of an acquired entity and the aggregate of the fair value of that entity's identifiable assets and liabilities. Positive goodwill is capitalised, classified as an asset on the balance sheet and amortised on a straight line basis over its useful economic life of 20 years. It is reviewed for impairment at the end of the first financial year following the acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

#### ***Government grants***

Grants of a revenue nature are credited to the profit and loss account so as to match them with the expenditure to which they relate.

#### ***Investments***

Fixed asset investments are stated at cost less provision for impairment. The carrying values of fixed asset investments are reviewed for impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable.

#### ***Leases***

Rentals payable under operating leases are charged on a straight line basis over the lease term, even if the payments are not made on such a basis. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight line basis over the lease term, except where the period to the review date on which the rent is first expected to be adjusted to the prevailing market rate is shorter than the full lease term, in which case the shorter period is used.

#### ***Pensions***

For defined contribution personal pension plans the amount charged to the profit and loss account in respect of pension costs and other post retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

### ***Deferred tax***

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates that are expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements. Deferred tax assets are recognised to the extent that is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

### ***2. Operating loss***

Administrative expenses in the thirteen months from 1 December 2003 (date of incorporation) to 31 December 2004 includes £70,000 in relation to the rental of the Company's offices during the period and £4,400 in respect of audit fees.

In addition, fees payable to the auditors in respect of other services provided in the period ended 31 December 2004 totalled approximately £45,000. These costs will be offset against the share premium account upon the successful raising of finance in 2005, or if the raising of finance does not take place, will be charged to the profit and loss account in 2005.

### ***3. Directors' emoluments and staff costs***

Directors' emoluments, which are the only staff costs incurred by the Group, were as follows:

	<i>13 months to 31 December 2004</i>
	<i>£</i>
Wages and salaries	43,333
Social security costs	5,147
Pension costs	—
	<hr/>
	48,480

In addition, the Group paid management charges to KPI totalling £64,000 during the period ended 31 December 2004. These management charges include the provision of services of Dr James Watkins, a director of the Company.

The average monthly number of employees (all executive directors) during the period was 3, all in a management capacity.

Upon the receipt of funds from the proposed raising of equity finance and listing of the Company's shares on AIM, further salary costs could become payable totalling approximately £275,000. These costs only become payable on the successful raising of certain amounts of finance and are in connection with contractual arrangements entered into, or to be entered into, between the Company and certain of the Executive Directors (current and former). As contractual arrangements are still to be finalised, the actual amount payable could be higher. In accordance with Financial Reporting Standard Number 12, Provisions, Liabilities and Assets, these assets have not been accrued as at 31 December 2004. Accordingly they will be charged to the profit and loss account in 2005.

### ***4. Loss attributable to members of the parent company***

The loss in the financial statements of the Company was £208,521.

### ***5. Taxation***

No charge to taxation arose due to the losses incurred during the period.

At 31 December 2004, the Group had a deferred tax asset (using a tax rate of 30 per cent.) of approximately £66,000, which has not been recognised due to the current uncertainty of future profits. Upon the successful

raising of equity finance, commencement of trading and generation of profits, this asset is expected to be recognised.

## 6. *Intangible fixed assets*

	<i>Goodwill on consolidation</i>
Group	£
Cost:	
Additions and at 31 December 2004 (note 7)	<u>514,791</u>

## 7. *Fixed asset investments*

The subsidiary undertakings of the Group at 31 December 2004 were as follows:

<i>Name</i>	<i>Parent Company</i>	<i>Country of Incorporation</i>	<i>Principal Activity</i>	<i>Effective Proportion of Shares Held</i>
KP Renewables (Operations)	the Company	England	Holding company	100%
KP Bioenergy Holding Limited	KP Renewables (Operations)	England	Holding company	100%
KP Wind Holdings Limited	KP Renewables (Operations)	England	Holding company	100%
KP Snodland Power Limited	KP Bioenergy Holding Limited	England	Renewable energy	100%
KP Crayford Power Limited	KP Bioenergy Holding Limited	England	Renewable energy	100%
North Otter Windfarm Limited	KP Wind Holdings Limited	England	Renewable energy	100%
Lephinmore Windfarm Limited	KP Wind Holdings Limited	England	Renewable energy	100%

Of these companies, only KP Renewables (Operations) had incurred expenses as at 31 December 2004. Further details are set out below. The other subsidiaries all had an issued share capital of £2 represented by either cash, investments or amounts due from parent undertaking.

On 31 March 2004 the Company acquired the whole of the issued share capital of KP Renewables (Operations) from the Company's ultimate holding company, KPI, in consideration for the issue of 34,500,000 ordinary shares of 1p each in the Company at par. The cost of this acquisition was £345,000, based on the Directors' valuation of the fair value at that time.

The acquisition of KP Renewables (Operations) on 31 March 2004 comprised:

	£
Investments	4
Debtors	10,113
Cash	14,367
Creditors due within one year - the Company	<u>(194,275)</u>
Net liabilities	(169,791)
Goodwill arising on acquisition	<u>514,791</u>
	<u>345,000</u>
Discharged by:	
Fair value of shares issued	<u>345,000</u>

The profit and loss account of KP Renewables (Operations) for the period from 1 January 2003 to 31 March 2004 can be summarised as set out below. Prior to this period, KP Renewables (Operations) had not traded.

	£
Administrative expenses	(179,873)
Other operating income - grant income	10,080
Loss for the period before and after tax	<u>(169,793)</u>

Administrative expenses included £172,195 in connection with a services agreement between KPI and KP Renewables (Operations) (see note 13 for details of costs incurred in connection with this agreement subsequent to 31 March 2004).

In the opinion of the directors, the aggregate value of the investment in subsidiary undertakings is not less than the amount at which it is stated in the balance sheet.

#### 8. Debtors

	Group £	Company £
Amounts owed by subsidiary undertaking	–	182,218
Other debtors - rent deposit	14,000	14,000
Prepayments	61,896	61,896
Other debtors	12,324	12,324
	<u>88,220</u>	<u>270,438</u>

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

	Group £	Company £
Loan from parent undertaking	20,000	20,000
Accrued expenses - parent undertaking	44,850	44,500
Accrued expenses - fellow subsidiary undertaking	36,647	36,647
Accruals and other creditors	55,163	50,482
	<u>156,660</u>	<u>151,629</u>

As set out in Note 3, upon the receipt of funds from the proposed issue of shares, further salary costs totalling approximately £275,000 could become payable in respect of contractual obligations for which the benefit was received during the 13 months ended 31 December 2004. Furthermore, salary costs incurred in the period subsequent to 31 December 2004 and which have not been paid, will also become payable. These costs will be charged to the profit and loss account in 2005.

#### 10. Called-up share capital

	No.	£
<i>Authorised:</i>		
Ordinary shares of 1p each	<u>75,000,000</u>	<u>750,000</u>
<i>Allotted, called up and fully paid:</i>		
Ordinary shares of 1p each	<u>40,446,374</u>	<u>404,464</u>

On incorporation, the Company had an authorised share capital of £50,000 divided into 50,000 ordinary shares of £1 each, of which 2 ordinary shares of £1 each were issued at par. On 20 December 2003 the £1



shares were sub-divided into 1p shares, creating 5,000,000 authorised ordinary shares of 1p each and 200 issued ordinary shares of 1p each; furthermore, the authorised share capital of the Company was increased by £700,000 to £750,000, resulting in 75,000,000 authorised ordinary shares of 1p each.

During the period 20 December 2003 to 31 March 2004, 2,130,000 ordinary shares of 1p each were issued at prices ranging from 1p to 10p per ordinary share of 1p each, for a total of £64,800. This resulted in £43,500 being credited to the share premium account.

On 30 March 2004, 725,574 ordinary shares were issued to former investors in KP Renewables (Operations) Limited at an average premium of 26.8p each for a total of £202,000. This resulted in £194,744 being credited to the share premium account.

As set out in Note 7, 34,500,000 ordinary shares of 1p each were issued at par to KPI on 31 March 2004.

During November and December 2004, a total of 90,600 ordinary shares of 1p each were issued at a price of 40p per share, realising £36,240, of which £35,334 has been credited to the share premium account.

On 31 December 2004, in partial settlement (£30,000) of a loan (£50,000) made to it indirectly by third party investors, the Company issued 3 million ordinary shares of 1p each at par.

On 31 January 2005, 600 ordinary shares of 1p each were issued at a price of 40p per share, realising £240.

On 31 January 2005, 850,000 ordinary shares of 1p each were issued to a current director, 600,000 ordinary shares of 1p each were issued at par and 250,000 ordinary shares of 1p each were issued at 10p each.

Contingent on Admission of the Company's shares to AIM, there are option agreements in place for certain current and former executive directors.

The total number of options that can be granted under the scheme at present is 600,000 to a former director, P. Taylor, 850,000 to a former director, E. Delamer House, and a variable amount to a current director, R. Smyth.

The terms of the options regarding P. Taylor are that they are exercisable for a period of 5 years from the date of original grant (17 June 2004) at an exercise price of 1p per share.

The terms of the options regarding E. Delamer House are that they are exercisable for a period of 5 years from the date of original grant (5 January 2005) at an exercise price of 1p per share.

The maximum number that R. Smyth can subscribe for is equivalent to 1 per cent. of the total issued share capital of the Company on admission to AIM, with various dates, depending on certain events occurring (whichever occurs first) as follows:

- |  |     |
|--|-----|
| • Date of Admission                                | 25% |
| • 12 months after date of Admission or 18 May 2006 | 25% |
| • 12 months after date of Admission or 18 May 2007 | 25% |
| • 12 months after date of Admission or 18 May 2008 | 25% |

The options regarding R. Smyth will vest 3 years after grant and are exercisable for 7 years after vesting subject to the Rules of the KPR Share Option Plan.

An additional bonus award of shares (or options with equivalent value) may also be awarded to R. Smyth, with the maximum amount of this award during the first 3 years of his employment (from 18 November 2004) being 1 per cent. of the total issued share capital of the Company on admission to AIM. The price for exercising these options is to be in accordance with the KPR Share Option Plan.

Contingent on Admission of the Company's shares to AIM, shares with a total value of £115,520 will be issued to shareholders who invested in the Company in November/December 2004 and January 2005, at 125p per share. The number of ordinary shares of 1p each which will be issued on the successful listing of the Company's shares on AIM is therefore 92,416, and £114,596 will be credited to the share premium account.

Contingent on Admission of the Company's shares to AIM, shares with a total value of £500,000 will be issued to a company in which a director has an interest and which has provided services to the Group (see note 13). The exact number of ordinary shares of 1p each to be issued is dependent on the Company's share price on Admission. This is included within other financial commitments (see note 12).

Contingent on Admission of the Company's shares to AIM, warrants with a value of £250,000 are to be issued to a former financial advisor for services provided. This is included within other financial commitments (see note 12).

#### **11. Reconciliation of equity shareholders' funds and movements on reserves**

	<i>Group and Company Called-up share capital</i>	<i>Share premium account</i>	<i>Profit and loss account</i>	<i>Total</i>
	£	£	£	£
At incorporation	2	–	–	2
Loss for the period	–	–	(220,951)	(220,951)
Shares issued	404,462	273,578	–	678,040
At 31 December 2004	404,464	273,578	(220,951)	457,091

#### **12. Other financial commitments**

At 31 December 2004, the Group and Company had a licence agreement with a fellow subsidiary undertaking (which in turn has a rental agreement with the freeholder of the Group's premises) for the rental of offices for which £3,500 was payable within one year. Subsequent to the year end, a new contract was entered into, the result being that the Company is committed to pay rent under contracts totalling £45,500 (£3,500 per month until 31 January 2006).

As set out in note 3, upon the successful raising of equity finance by the Company, certain liabilities to former and current directors of the Company in respect of services provided will crystallise. The exact amounts which crystallise depends on the amount of equity finance raised. The Directors' best estimate of the maximum liability as at 31 December 2004, based on contracts, where signed, or indicative offers to be made to former directors, where no contract has yet been signed, is £275,000.

During the period, the Group incurred costs which will be netted off against the proceeds of the proposed equity finance raised, but which have not been accounted for in these financial statements. The total of these costs was approximately £1.45 million as at 31 December 2004, of which approximately £60,000 had already been billed as paid and is included in prepayments (see note 7). Certain of these costs will be satisfied by the issue of shares (£500,000) or warrants (£250,000), the remainder being settled in cash. Additional costs have been waived since 31 December 2004.

#### **13. Related party transactions**

##### *Period to 31 March 2004*

On 31 March 2004, the Company acquired KP Renewables (Operations) from KPI, the Company's parent undertaking, for £345,000, issuing 34,500,000 ordinary shares of 1p each at par.

During the period 31 March 2004 (date of acquisition by the Company) to 31 December 2004, KP Renewables (Operations) incurred costs totalling approximately £7,000 in connection with a services agreement with KPI. This agreement provided for the services of, *inter alia*, Dr James Watkins, a director of the Company. This agreement was terminated on 30 April 2004 and replaced by an agreement between the Company and KPI (see below). As at 31 December 2004, the liability had been settled in full.

Prior to its acquisition by the Company, KP Renewables (Operations) collected cash totalling £206,750 on behalf of the Company. As a result of the foregoing, and certain other transactions between the Company and KP Renewables (Operations), as at 31 March 2004, the date of acquisition, the Company was owed £194,274 by KP Renewables (Operations).

*Period from 1 April 2004 to 31 December 2004*

During the period ended 31 December 2004, the Company was charged £64,000 by KPI in respect of management charges, in accordance with a service agreement which commenced on 1 May 2004. At 31 December 2004, £44,500 remained outstanding (see note 9). This agreement provides for the services of, *inter alia*, Dr J Watkins, a director of the Company.

During the period ended 31 December 2004, the Company was charged £35,000 by a fellow subsidiary undertaking, Kwikpower Management Services Limited in respect of rental of offices. Other charges resulted in £36,647 remaining outstanding as at 31 December 2004.

During the period ended 31 December 2004, CO2e, a company in which Mr Steve Drummond, a non-executive Director of the Company since 5 May 2004, charged the Company £250,000, which monies are only payable on the Company's successful listing on AIM. This has not been included in the figures presented, but is included within other financial commitments (note 12). In addition, as noted in note 10, shares with a total value of £500,000 are to be issued to CO2e on the Company's successful listing on AIM.

During the period ended 31 December 2004, Crosby & Partners, a company in which Mr Peter O'Kane, a non-executive Director of the Company from 5 May 2004 to 18 August 2004 charged the Company £201,500, which monies are only payable on the Company's successful listing on AIM; as such, this has not been included in the figures presented, but is included within other financial commitments (note 12).

During the period ended 31 December 2004, KPI loaned the Company £50,000 on an interest free, unsecured basis, repayable on the Company's successful raising of equity finance. On 31 December 2004 £30,000 of this loan was converted into 3 million ordinary shares of 1p each, issued at par; these shares were subsequently transferred to an external third party. As at 31 December 2004, £20,000 remains outstanding (see note 9).

KPI has entered into an agreement with a creditor of the Group whereby it will transfer shares to the value of £87,000 in full settlement of the debt due to the creditor by the Group. This amount will not be re-charged to the Group. These costs arose in connection with entering into framework power purchase agreements. Furthermore, KPI will transfer further shares with a value of £50,000 in respect of services to be provided by this creditor to the Group. These share transfers are due to occur on or before admission of the Company's shares to AIM.

**14. Parent undertaking and controlling party**

The Company's immediate parent undertaking is KPI, a company incorporated in Gibraltar. The ultimate controlling party is Dr. James Watkins, a director of the Company.

**15. Post balance sheet events**

On 28 February 2005, Paul Carey, a director of the Company, resigned. A settlement agreement for the termination of his services has yet to be entered into. During the period 11 August 2004 (date of commencement of employment) to 31 December 2004, no salary was paid to Mr Carey. Included within other financial commitments, which only crystallise on the Company's successful raising of finance, is a provision in respect of Mr Carey's services from date of commencement of employment (11 August 2004) to 31 December 2004 (see note 12).

Yours faithfully,

Moore Stephens  
Chartered Accountants  
Registered Auditor

## **PART B**

### **FINANCIAL INFORMATION ON KP RENEWABLES (OPERATIONS)**

The following is the text of an accountants' report on KP Renewables (Operations) by Moore Stephens, for the years ended 31 December 2002, 2003 and 2004.

**MOORE STEPHENS**  
CHARTERED ACCOUNTANTS

---

St. Paul's House,  
Warwick Lane,  
London EC4M 7BP

The Directors,  
KP Renewables plc,  
Chiswick Park, Building Three,  
566 Chiswick High Road,  
Chiswick,  
London W4 5YA.

The Partners  
Deloitte & Touche LLP  
Stonecutter Court  
1 Stonecutter Street  
London  
EC4A 4TR

18 May 2005

Dear Sirs,

#### **KP RENEWABLES (OPERATIONS) LIMITED ("KP RENEWABLES (OPERATIONS)")**

We report in connection with the prospectus issued by KP Renewables dated 18 May 2005 ("the Document"). In accordance with our instructions, we report on the financial information set out below relating to KP Renewables (Operations). This financial information has been prepared for inclusion in the Document.

The financial information does not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985 (as amended).

#### **Introduction and Basis of Preparation**

KP Renewables (Operations) was incorporated on 22 May 2000 with the name Kwikpower Management Limited. On 22 November 2002, it changed its name to KP Bioenergy Limited and on 8 October 2004 changed its name to KP Renewables (Operations).

On incorporation, KP Renewables (Operations) had an authorised share capital of £100, divided into 100 Ordinary Shares of £1 of which 2 Ordinary Shares of £1 each were issued at par for cash.

From incorporation until 31 December 2002, KP Renewables (Operations) took advantage of the exemption from the requirement to present audited financial statements conferred by Section 249A of the Companies Act 1985.

The financial information is based on the unaudited financial statements for the year ended 31 December 2002 and the audited financial statements for the years ended 31 December 2003 and 2004, all without adjustment.

We have reviewed the unaudited financial statements of KP Renewables (Operations) for the year ended 31 December 2002 and the audited financial statements for the years ended 31 December 2003 and 2004.

No financial statements for KP Renewables (Operations) have been prepared or presented to the members of KP Renewables (Operations) for any period since 31 December 2004 and no dividends have been paid or declared in respect of the period since that date.

### **Responsibility**

The financial information is the responsibility of the directors of KP Renewables (Operations), who approved its issue. The directors of KP Renewables are responsible for the contents of the Document in which this report is included. It is our responsibility to form an opinion on the financial information set out below and to report our opinion to you.

### **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 amounts and disclosures in the financial information. It also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to KP Renewables (Operations)'s circumstances, consistently applied and adequately disclosed.

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

### **Going Concern**

In forming our opinion, we have considered the adequacy of the disclosures made in Note 1 of the financial information concerning the net liability position of KP Renewables (Operations), and the continued on-going support of the Company. In view of the significance of this uncertainty, we consider that it should be drawn to your attention, but our opinion is not qualified in this respect.

### **Opinion**

In our opinion, the financial information gives, for the purposes of the Document, a true and fair view of the state of affairs of KP Renewables (Operations) at 31 December 2003 and 2004 and the results and recognised gains and losses for the periods then ended. The financial information for the year ended 31 December 2002 has not been audited, and we express no opinion on the financial information in respect of that year.

### **Consent**

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

## Profit and loss accounts

		<i>Year ended 31 December 2002 unaudited</i>	<i>Year ended 31 December 2003</i>	<i>Year ended 31 December 2004</i>
	<i>Notes</i>	<i>£</i>	<i>£</i>	<i>£</i>
Administrative expenses		—	(7,055)	(6,370)
Administrative expenses - exceptional item		—	(139,050)	(39,828)
Other operating income	2	—	10,080	—
<b>Loss on ordinary activities before and after taxation</b>	3	—	(136,025)	(46,198)

## Statement of Total Recognised Gains & Losses

There are no recognised gains or losses other than as shown above.

## Balance Sheets

		<i>As at 31 December 2002 unaudited</i>	<i>As at 31 December 2003</i>	<i>As at 31 December 2004</i>
	<i>Notes</i>	<i>£</i>	<i>£</i>	<i>£</i>
<b>Fixed assets</b>				
Investments	6	—	—	4
		—	—	4
<b>Current assets</b>				
Debtors	7	—	10,006	—
Cash at bank and in hand		2	32,271	5,028
		2	42,277	5,028
<b>Creditors: amounts falling due within one year</b>	8	—	(178,300)	(187,253)
<b>Net current assets/(liabilities)</b>		2	(136,023)	(182,225)
<b>Net assets/(liabilities)</b>		2	(136,023)	(182,221)
<b>Capital and losses</b>				
Called-up share capital	9, 10	2	2	2
Profit and loss account	10	—	(136,025)	(182,223)
<b>Equity shareholders' funds/ (deficit)</b>	10	2	(136,023)	(182,221)

## Cash flow statement

		<i>Year ended 31 December 2002 unaudited</i>	<i>Year ended 31 December 2003</i>	<i>Year ended 31 December 2004</i>
		<i>£</i>	<i>£</i>	<i>£</i>
Operating loss		—	(136,025)	(46,198)
Creditors		—	178,300	8,953
Debtors		—	(10,006)	10,006
<b>Net cash inflow/(outflow) from operating activities</b>		—	32,269	(27,239)
<b>Acquisitions and disposals</b>				
Investment in subsidiaries		—	—	(4)
<b>Net cash inflow/(outflow)</b>		—	32,269	(27,243)

## **Notes to the financial information**

### **1. Accounting policies**

#### **Accounting convention**

The financial statements are prepared under the historical cost convention, and in accordance with generally accepted accounting principles in the United Kingdom.

#### **Going Concern**

The financial statements for the year ended 31 December 2004 have been prepared on the going concern basis. This has been applied taking into account the financial support given to KP Renewables (Operations) by its immediate parent undertaking, the Company. The going concern of the Company is dependent upon the successful raising of equity finance by the Company and also the financial support of its own parent company, Kwikpower International plc, Gibraltar ("KPI"), incorporated in Gibraltar.

#### **Government grants**

Grants of a revenue nature are credited to the profit and loss account so as to match them with the expenditure to which they relate.

#### **Investments**

Fixed asset investments are stated at cost less provision for impairment. The carrying values of fixed asset investments are reviewed for impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable.

#### **Deferred taxation**

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date. The current tax rates and law have been used as the basis for those which are expected to apply on crystallisation.

Timing differences arise from the inclusion of items in income and expenditure in taxation computations in periods different from those in the financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

#### **Group accounts**

The Company has taken advantage of the exemption available under FRS2 not to prepare group accounts on the grounds of immateriality. The Company is also part of the KP Renewables plc group.

### **2. Other operating income**

During the year ended 31 December 2003 KP Renewables (Operations) received a grant from South Yorkshire Business Link totalling £10,080. There are no conditions attached to this grant.

### **3. Loss on Ordinary Activities Before and After Taxation**

Loss on ordinary activities before and after taxation is stated after charging £944 (2003: £4,660) in relation to the rental of offices during the period, and £2,200 (2003: £2,000) in respect of audit fees.

The exceptional item of £39,828 (2003: £139,050) relates to pre-contract and management costs charged to KP Renewables (Operations) by KPI, KP Renewables (Operations)'s ultimate parent company undertaking, which have been written off in accordance with UITF 34.

#### 4. Directors' Emoluments and Staff Costs

No directors serving at the balance sheet date or during the year ended 31 December 2004 have been paid any emoluments (2003: £nil).

KP Renewables (Operations) did not employ any staff during the period, other than the directors, of which on average, there were three.

#### 5. Deferred Tax

KP Renewables (Operations) had the following net deferred tax asset which has not been recognised due to the uncertainty of future profits. Upon the successful raising of finance by the Company and commencement of trading and generation of profits, this asset is expected to crystallise.

	31 December 2003	31 December 2004
	£	£
Unutilised tax losses	40,807	54,667

#### 6. Investments

On 16 March 2004 KP Renewables (Operations) incorporated KP Wind Holdings Limited as a vehicle for the ownership of future windfarm assets by the issue of 2 £1 shares at par. Also on that day, KP Renewables (Operations) purchased the 2 £1 shares of KP Bioenergy Holding Limited (representing 100 per cent. of the issued share capital of that company) for £2 as a vehicle for the ownership of future biomass assets. As a result, the Company now has the following subsidiary undertakings:

Name	Parent Company	Country of Incorporation	Principal Activity	Effective Proportion of Shares Held
KP Bioenergy Holding Limited	KP Renewables (Operations)	England	Holding company	100%
KP Wind Holdings Limited	KP Renewables (Operations)	England	Holding company	100%
KP Snodland Power Limited	KP Bioenergy Holding Limited	England	Renewable energy	100%
KP Crayford Power Limited	KP Bioenergy Holding Limited	England	Renewable energy	100%
North Otter Windfarm Limited	KP Wind Holdings Limited	England	Renewable energy	100%
Lepinmore Windfarm Limited	KP Wind Holdings Limited	England	Renewable energy	100%

None of these companies has commenced trading.

#### 7. Debtors

	31 December 2002	31 December 2003	31 December 2004
	£	£	£
Prepayments	—	10,000	—
Other debtors	—	6	—
	—	10,006	—

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

	31 December 2002	31 December 2003	31 December 2004
	£	£	£
Amounts owed to the Company	—	176,300	182,218
Accruals and other creditors	—	2,000	5,035
	—	178,300	187,253



## 9. Called-up share capital

	No.	£
Authorised:		
Ordinary shares of £1 each	100	100
	<hr/>	<hr/>
Allotted, called up and fully paid:		
Ordinary shares of £1 each	2	2
	<hr/>	<hr/>

## 10. Reconciliation of equity shareholders' funds/(deficit) and movements on reserves

	Called-up share capital £	Profit and loss account £	Total £
At 1 January 2003	2	–	2
Loss for the year	–	(136,025)	(136,025)
At 31 December 2003	2	(136,025)	(136,023)
Loss for the year	–	(46,198)	(46,198)
At 31 December 2004	2	(182,223)	(182,221)

## 11. Related Party Transactions

During the year ended 31 December 2004, KP Renewables (Operations) purchased services in the normal course of business from KPI, its parent undertaking until 31 March 2004, and thereafter its ultimate parent undertaking, for £39,828 (2003 - £139,050), all of which had been paid for as at 31 December 2004 and at 31 December 2003. Included within these charges are provisions in respect of the services of Dr James Watkins, a director of KP Renewables (Operations).

During the year ended 31 December 2004, KP Renewables (Operations) entered into transactions on behalf of the Company, its parent undertaking from 31 March 2004, including the collection of monies (£28,200) in respect of a share issue by the Company (2003: £173,800). The Company also entered into transactions on behalf of KP Renewables (Operations), the net result being that as at 31 December 2004, KP Renewables (Operations) owed the Company £182,218 (2003: £176,300) (see note 8).

During the year ended 31 December 2004, KP Renewables (Operations) incurred costs totalling approximately £87,000 in connection with entering into a framework power purchase agreement. KPI has entered into an agreement with KP Renewables (Operations) and the creditor to settle this liability on behalf of KP Renewables (Operations) for nil cost to KP Renewables (Operations).

## 12. Parent undertaking and ultimate controlling party

The immediate parent undertaking of KP Renewables (Operations) up until 31 March 2004 was KPI, a company incorporated in Gibraltar. As from 31 March 2004, its immediate parent undertaking is the Company, which is incorporated in England and Wales.

The ultimate parent undertaking of KP Renewables (Operations) remains KPI.

The ultimate controlling party is Dr. J. Watkins, a director of KP Renewables (Operations) and the Company.

Yours faithfully,

Moore Stephens  
Chartered Accountants  
Registered Auditors

## PART IV

### DETAILS OF THE OFFER FOR SUBSCRIPTION

#### 1. Terms of the Offer for Subscription

- 1.1 The Company is offering only to those persons who comply with the terms and conditions contained in this document ("Qualifying Subscribers") up to 10,000,000 Ordinary Shares at 40 pence per Pre-IPO Share and up to 10,000,000 Ordinary Shares at 125 pence per IPO Share payable in full on application.
- 1.2 The Offer for Subscription is made on the basis of the information and subject to the conditions set out or referred to in this document.
- 1.3 A Qualifying Subscriber who makes an application on the form included at the end of this document in respect of Pre-IPO Shares under the Offer for Subscription will be irrevocably and unconditionally bound to subscribe for the Pre-IPO Shares at the Pre-IPO Subscription Price and to pay the subscription monies due in respect of such subscription in accordance with the terms and subject to the conditions set out in this document.
- 1.4 A Qualifying Subscriber who makes an application in respect of IPO Shares will be irrevocably bound (a) to subscribe for the IPO Shares at the IPO Subscription Price subject only to Admission occurring on or before 31 July 2005 and (b) to pay the subscription monies due in respect of such subscription in accordance with the terms and subject to the conditions set out in this document, which monies will be returned to such Qualifying Shareholder in the event that Admission does not occur on or before 31 July 2005.
- 1.5 Application may be made by Qualifying Subscribers for a minimum of 3,000 Pre-IPO Shares and 3,000 IPO Shares which, at the Subscription Prices equates to £4,950. **Any application under the Offer for Subscription must be for both the Pre-IPO Shares and the IPO Shares in the ratio of one IPO Share for every Pre-IPO Share so subscribed.** All allotments of the Subscription Shares will be at the absolute discretion of the Company. The Company will determine whether any Subscription Shares are issued to any person completing and returning an Application Form. Qualifying Subscribers should be aware that the Company may reject (and not issue any Subscription Shares in relation to) any Application Form or accept any Application Form and issue all or part only (as determined by the Company in its absolute discretion) of the Subscription Shares applied for pursuant to the Application Form. If rejected in whole or in part monies received for the appropriate amount will be returned to applicants without interest, at their own risk, within 14 days of the closing date of the Offer for Subscription.
- 1.6 Upon issue the Pre-IPO Shares and the IPO Shares will be credited as fully paid and rank in full for all dividends and other distributions thereafter declared made or paid on the Ordinary Shares then in issue and otherwise *pari passu* in all respects with the then existing issued Ordinary Shares.
- 1.7 The subscription monies due in respect of the Pre-IPO Shares and the IPO Shares must be paid by cheque in favour of Hunton & Williams, the Company's solicitors, (which cheque should be drawn on a UK clearing bank and should accompany the Application Form duly signed) or by wire transfer to the client account of the Company's solicitors specified in the Application Form, within 3 banking days of the application being made.
- 1.8 Definitive share certificates in respect of the Pre-IPO Shares are expected to be despatched within 14 days of receipt of the relevant subscription monies. Definitive share certificates in respect of the IPO Shares are expected to be despatched within 7 days of Admission.
- 1.9 To make an application Qualifying Subscribers must complete the Application Form and return it in accordance with the instructions set out on the form so that it is received by Hunton & Williams, the Company's solicitors, no later than 3.00 p.m. on 8 June 2005. Applications received after that time will not be valid, unless the Company agrees otherwise.

- 1.10 Payment of the subscription monies due in respect of any application must be made in accordance with the Application Form. Interest is chargeable and will accrue daily on all outstanding amounts due after the due date at the rate of 5 percentage points above prevailing LIBOR.
- 1.11 Applications must be made on the Application Form. By completing and delivering the Application Form, applicants represent, warrant, undertake and acknowledge that:
- (a) he/she is entitled to subscribe for Ordinary Shares under the laws of all relevant jurisdictions which apply to him/her and that he/she has fully observed such laws and obtained all guarantees and other consents which may be required thereunder and complied with all necessary formalities;
  - (b) in accepting his/her subscription and subscription monies for Ordinary Shares neither the Company nor its solicitors are breaching any provision of the Money Laundering Regulations 2003, the Anti-terrorism, Crime and Security Act 2001 or the Proceeds of Crime Act 2002 and that he/she has complied fully with any obligations which may apply to him/her under the Money Laundering Regulations 2003;
  - (c) he/she has read this document in its entirety;
  - (d) in completing his/her Application Form he/she is acting as principal and for no other person and that acceptance of his/her application will not give any other person a contractual right to require the issue to him/her by the Company of any Ordinary Shares; and
  - (e) the only information upon which he/she has relied in committing him/herself to subscribe for Ordinary Shares is that contained in this document.

If any of the above representations, warranties, undertakings and acknowledgments shall not be true and accurate at any time prior to the issue of Ordinary Shares to him/her, he/she will give immediate notice of such fact to the Company specifying in what respect they are not accurate.

By completing the Application Form, he/she agrees to indemnify the Company and its officers, directors, employees and agents from and against any and all loss, damage, liability, expense (including legal fees) due to or arising out of the inaccuracy of any of the above representations, warranties, undertakings and acknowledgments or breach of any other provision of this document.

- 1.12 By completing the Application Form, he/she agrees not to transfer or assign his/her rights under this document or any interest therein. Any such transfer or assignment shall be void unless approved in writing by the Company (which approval shall not be unreasonably withheld).
- 1.13 By completing the Application Form, he/she agrees that he/she may not cancel, terminate or revoke his/her commitment under the terms of this document and that such commitment shall survive his/her death or incapacity and shall be binding on his/her heirs, personal representatives, successors and assigns.
- 1.14 Neither the Ordinary Shares nor this document have been or will be registered under the United States Securities Act of 1933, as amended, or under the relevant laws of any State of the United States or any state, province or territory of Australia, Canada, Japan, New Zealand, the Republic of Ireland or South Africa. Subject to certain exceptions, neither the Ordinary Shares nor this document may be directly or indirectly offered, sold, delivered or transferred in or into the United States, Australia, Canada, Japan, New Zealand, the Republic of Ireland or South Africa or to, or for the account or benefit of, US persons. Neither the Ordinary Shares nor this document have been approved or disapproved by the US Securities Exchange Commission, any State securities commission in the United States or any other US regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the offering of the Ordinary Shares or the accuracy or adequacy of this document.
- 1.15 The terms of the Offer for Subscription contained in this document shall be governed by, and construed in accordance with English Law, and in relation to any action or proceedings to enforce the terms of this document, or arising out of or in connection with the same ("**Proceedings**"), a Qualifying Subscriber making an application pursuant to the Offer for Subscription and the Company shall submit to the exclusive jurisdiction of the English Courts and waive any objection to Proceedings in such courts on the grounds of venue or on the grounds that the Proceedings have been brought in an inconvenient forum.

## PART V

### ADDITIONAL INFORMATION

#### 1. The Company and its share capital

- (a) The Company was incorporated in England and Wales as a public limited company on 1 December 2003 under the Act with registered number 4981279.
- (b) The Company's registered office is at Chiswick Park Building 3, 566 Chiswick High Road, Chiswick London W4 5YA.
- (c) The principal legislation under which the Company operates is the Act. The liability of the members is limited.
- (d) The authorised and issued share capital at the date of this document and as it will be on completion of the Offer for Subscription, assuming that the Offer for Subscription is fully subscribed, is as follows:

	<i>Authorised Number of Ordinary Shares</i>	£	<i>Issued and fully paid Number of Ordinary Shares</i>	£
At the date of this document	100,000,000	1,000,000	41,296,974	412,970
On completion of the Offer for Subscription	100,000,000	1,000,000	61,296,974	612,970

- (e) By or pursuant to resolutions of the Company passed on 13 May 2005:
  - (i) the authorised share capital of the Company was increased from £750,000 to £1,000,000 by the creation of an additional 25,000,000 ordinary shares of 1 pence each;
  - (ii) the Directors were generally and unconditionally authorised for the purpose of section 80 of the Act to exercise all powers of the Company to allot relevant securities (as defined in the Act) up to a maximum nominal amount of £587,030 to such persons and at such times and on such terms as they think proper during the period expiring at the end of fifteen months from the date of the passing of the resolution or, if earlier, at the end of the next Annual General Meeting of the Company and the Directors were authorised to make prior to the expiry of such period any offer or agreement which would or might require relevant securities to be allotted after the expiry of the said period and the Directors may allot relevant securities in pursuance of any such offer or agreement notwithstanding the expiry of the authority given by the resolution;
  - (iii) the Directors were empowered pursuant to and in accordance with section 95 of the Act to make allotments of equity securities (as defined in section 94 of the Act) for cash: (a) up to a maximum nominal amount of £200,000 pursuant to the Offer for Subscription; (b) up to a maximum nominal amount of £10,000 to CO2e.com Limited pursuant to the deed referred to at paragraph 3(e) below; (c) up to a maximum nominal amount of £5,000 to KBC Peel Hunt Ltd pursuant to the warrant referred to at Paragraph 3(o)(ii) below; (d) up to a maximum nominal amount of £5,000 to BizzEnergy Limited pursuant to the agreement referred to at paragraph 3(o)(iii) below; (e) up to a maximum nominal amount of £5,000 to Deloitte & Touche LLP pursuant to the agreement referred to at paragraph 5(d) below; and (f) to sell treasury shares (as defined in section 162A(3) of the Act) and make allotments of equity securities for cash pursuant to the authority conferred on them by the resolution referred to at (i) above as if section 89(1) and sub-sections (1)-(6) of section 90 of the Act did not apply to any such sale or allotment, provided that the power conferred was limited to:
    - (A) the sale or allotment of equity securities in connection with an issue or offering in favour of holders of equity securities and any other persons entitled to participate in such issue or

offering (other than the Company itself in respect of any shares held by it as treasury shares) where the equity securities respectively attributable to the interests of such holders and persons are proportionate (as nearly as may be) to the respective number of equity securities held by or deemed to be held by them on the record date of such sale or allotment, subject only to such exclusions or other arrangements as the Directors may consider necessary or expedient to deal with fractional entitlements or legal or practical problems arising in connection with the laws of, or requirements of, any recognised regulatory body or stock exchange in any territory; and

- (B) the sale or allotment (otherwise than pursuant to sub-paragraph (e)(ii)(A) above) of equity securities up to an aggregate nominal value not exceeding £30,649 being five per cent. of the issued share capital following completion of the Offer for Subscription (assuming that the maximum number of Subscription Shares are subscribed pursuant to the Offer for Subscription);

and provided that, unless renewed, such power shall expire at the end of fifteen months from the date of the passing of the resolution or, if earlier, at the end of the next Annual General Meeting of the Company but shall extend to the making, before such expiry, of an offer or agreement which would or might require a sale or allotment of equity securities to be made after such expiry and the Directors may make a sale or allotment of equity securities in pursuance of such offer or agreement as if the authority conferred had not expired.

- (f) The provisions of section 89(1) of the Act apply to the authorised unissued share capital of the Company to the extent not disapplied as described in paragraph 1(e) above. Subject to certain limited exceptions, unless the approval of shareholders in a general meeting is obtained, the Company must normally offer shares to be issued for cash to holders of existing shares on a *pro rata* basis. In such circumstances, the procedure for the exercise of such statutory pre-emption rights would be set out in the documentation by which such shares would be offered to the shareholders.
- (g) Save as disclosed in this paragraph 1 and in paragraphs 3 and 6 below, no persons have preferential subscription rights in respect of any authorised but unissued share or loan capital of the Company or any of its subsidiaries.
- (h) Save as disclosed in paragraphs 3 and 6 below no share or loan capital of the Company or any subsidiary is under option or is agreed conditionally or unconditionally to be put under option.
- (i) So far as the Company is aware, the only person who, directly or indirectly, jointly or severally, exercises or could exercise control over the Company and the particulars of the proportion of the Company's voting capital held by such person are as set out below:

	At the date of this document		On completion of the Offer for Subscription	
	Number of Ordinary Shares	Percentage of issued share capital	Number of Ordinary Shares	Percentage of issued share capital <sup>(2)</sup>
Kwikpower International <sup>1</sup>	34,000,200	82.33	34,000,200	55.47

Notes:

1 Dr James Watkins is the indirect beneficial owner of 100 per cent. of Kwikpower International.

2 Assuming that the maximum number of Subscription Shares are subscribed pursuant to the Offer for Subscription.

- (j) The Ordinary Shares are in registered form. None of the Ordinary Shares has been sold or are available in whole or in part to the public in conjunction with the Offer for Subscription.
- (k) The Ordinary Shares being issued pursuant to the Offer for Subscription will rank *pari passu* in all respects with the existing Ordinary Shares of the Company and will rank in full for all dividends and other distributions hereafter declared, made or paid in respect of the Company's Ordinary Shares.
- (l) There are no specified dates on which entitlement to dividends on the Ordinary Shares arise.

## 2. The Group

### (a) Holding company

The holding company of the Company is Kwikpower International.

### (b) Subsidiaries

The Company acts as the holding company of the Group. The Company has the following wholly owned subsidiaries each of which is (or is intended to be) engaged in the activities described below:

KP Renewables (Operations)	holding company
KP Bioenergy Holding	holding company
KP Wind Holdings	holding company
Lephinmore Windfarm Limited	development and exploitation of renewable energy generation facilities
North Otter Windfarm Limited	development and exploitation of renewable energy generation facilities
KP Crayford Power Limited	development and exploitation of renewable energy generation facilities
KP Snodland Power Limited	development and exploitation of renewable energy generation facilities

Each of the above subsidiaries is a private limited company incorporated in England and Wales. The registered office of each of the above subsidiaries is at Chiswick Park Building 3, 566 Chiswick High Road, Chiswick London W4 5YA.

## 3. Directors' and other interests

### (a) Directors' Interests:

The interests of the Directors (all of which are beneficial unless otherwise stated) and of all such persons connected (within the meaning of Section 346 of the Act) with the Directors in the issued share capital of the Company at the date of this document, (as notified to the Company under the provisions of Sections 324 or 328 of the Act and as shown in the register of interests of the Company required to be maintained under the provisions of Section 325 of the Act) and as they will be on completion of the Offer for Subscription are as follows:

	<i>At the date of this document</i>		<i>On completion of the Offer for Subscription</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<sup>(2)</sup></i>
John Bryant	370,000	0.90	370,000	0.60
Robert Smyth	850,000	2.06	850,000	1.39
Dr James Watkins <sup>1</sup>	34,000,200	82.33	34,000,200	55.47
Steve Drummond	25,000	0.06	25,000	0.04
Dr David Lindley	250,000	0.61	250,000	0.41
David Lloyd-Jacob	300,000	0.73	300,000	0.49

Notes:

1 Dr James Watkins is interested in these Ordinary Shares through his indirect beneficial ownership of 100 per cent. of Kwikpower International plc.

2 Assuming that the maximum number of Subscription Shares are subscribed pursuant to the Offer for Subscription.

Save as disclosed in this paragraph, at the date of this document and on completion of the Offer for Subscription none of the Directors and their immediate families has or will have any interest (beneficial or non-beneficial), in the issued share capital of the Company.

(b) *Directors' Options:*

Options will be granted on Admission (or shortly following Admission) under the Share Option Plan in accordance with the rights afforded to Robert Smyth under his service agreement. Mr Smyth will be entitled to subscribe for Ordinary Shares equal to 1.0 per cent. of the total issued share capital of the Company on Admission. Such options will be granted as to 25 per cent. on Admission, 25 per cent. on the first anniversary of Admission, 25 per cent. on the second anniversary of Admission and the balance on the third anniversary of Admission in accordance with the Share Option Plan and subject to appropriate performance conditions. The options to be granted pursuant to the Share Option Plan are exercisable no earlier than the third anniversary of the dates of grant and no later than the tenth anniversary of the date of grant.

- (c) There are no outstanding loans granted by any member of the Group to any of the Directors, nor any guarantees provided by any member of the Group for the benefit of any Director.
- (d) Save as disclosed in this document, no Director has had any interest in any transactions which are or which were unusual in their nature or conditions or which are or were significant to the business of the Group and which were effected by the Group in the current or the immediately preceding financial year or which were effected during an earlier financial year and which remain in any respect outstanding or unperformed.
- (e) Stephen Drummond is a director of CO2e.com Limited, a company which is wholly-owned by CO2e.com LLC. Mr Drummond has a beneficial interest of less than 10 per cent. in CO2e.com LLC. The PPAs were entered into as a result of brokerage services provided by Cantor Fitzgerald International (through its division CO2e.com). By a deed of novation dated 2 July 2004 (the "Novation Deed"), Kwikpower International, the Company, KP Renewables (Operations) and CO2e.com Limited ("CO2e.com") became parties to a letter agreement of 16 January 2002 (the "Brokerage Agreement") and a letter of 2 May 2002 (the "Advance Payment Letter") and in particular agreed (i) under the Brokerage Agreement, to make payment of brokerage fees to CO2e.com in relation to the PPAs and (ii) under the Advance Payment Letter, to make an advance payment of brokerage fees of up to £1 million upon the flotation of KP Renewables (Operations) or its parent (the "Advance Payment"). By a deed dated 2 July 2004, CO2e.com has agreed to relinquish and surrender its rights to the Advance Payment in consideration of: (i) the payment of £250,000 to CO2e.com by the Company within 5 business days of Admission; (ii) the issuance of Ordinary Shares equal in value at the Subscription Price to £500,000; and (iii) the issuance of ordinary shares of Kwikpower International equivalent in value to £250,000. By a deed dated 2 July 2004 in consideration of Kwikpower International satisfying £250,000 of the Advance Payment, the Company has agreed to pay to Kwikpower International 25 per cent. of the brokerage fees that would otherwise have been payable to CO2e.com under the Brokerage Agreement in respect of the PPAs were it not for the Advance Payment, such payments not in aggregate to exceed £250,000. The brokerage fees payable under the Brokerage Agreement are on arm's length commercial terms. The Ordinary Shares to be issued to CO2e.com Limited as referred to above are subject to an orderly marketing agreement as described in Part I.
- (f) Dr James Watkins is a director and the indirect beneficial owner of 100 per cent. of Kwikpower International. Kwikpower International entered into an agreement with the Company on 28 May 2004, pursuant to which Kwikpower International agreed to provide certain services to the Company including technical assistance, business development, strategic planning, contract management and administrative support. With effect from 1 May 2004 until the date upon which the Company is admitted to AIM, a fee of £8,000 (excluding VAT, if any) per month is payable by the Company to Kwikpower International for the provision of such services. Following Admission the fee payable by the Company in respect of such services shall be £265,000 per annum (excluding VAT, if any). The agreement is for an initial term of two years and, thereafter, either party may terminate the agreement by providing three months' written notice to the other party. Under the terms of the agreement, Dr James Watkins, Mr Bernard Rolfe and Mr Chris Moore will devote the majority of their time towards provision of such services.

- (g) The Directors are or have been directors of the following companies (in addition to the Company) at any time in the previous five years:

<i>Director</i>	<i>Current directorships</i>	<i>Past directorships</i>
John Bryant	Attiki Denmark ApS Attiki Gas Supply Company SA Cinergy Global Resources Inc. Cinergy Global Power (UK) Limited Cinergy Global Power Services Limited Cinergy Global Power, Inc. Cinergy Global Trading Limited Cinergy Global Tsavo Power Cinergy Holdings, BV Cinergy Renewable Trading Limited Cinergy Trading and Marketing Limited Cinergy Zambia BV Commercial Electricity Supplies Limited IPS-Cinergy Power Limited Midlands Hydrocarbons (Bangladesh) Limited UK Electric Power Limited	Anglian Ash Limited Anglian Straw Limited Cinergy Global Ely, Inc. Cinergy Global Foote Creek, Inc Cinergy Global (Cayman) Holdings, Inc Cinergy Global Hydrocarbons Pakistan Cinergy Global Power Iberia, SA Cinergy MPI II, Inc. Cinergy MPI IV, Inc. Cinergy MPI IX, Inc. Cinergy MPI V, Inc. Cinergy MPI VI, Inc. Cinergy MPI VII, Inc. Cinergy MPI VIII, Inc. Cinergy MPI X, Inc. Cinergy MPI XI, Inc. Cinergy MPI XII, Inc. Cinergy MPI XIII, Inc. Cinergy MPI XIV, Inc. Cinergy MPI XV, Inc. Construcciones Y Representaciones Industriales, S.A. Copperbelt Energy Corporation PLC Ely Power Limited EPR Ely Limited EPR Ely Power Limited Midlands Power (HPL) Limited Midlands Power (Indus) Limited Midlands Power (One) Limited Vendresse Limited



<i>Director</i>	<i>Current directorships</i>	<i>Past directorships</i>
Dr James Watkins	Connex International N.V. Kwikpower International Plc KP Renewables (Operations) Limited KP Bioenergy Holding Limited KP Biofuels Limited KP Crayford Power Limited KP Management Services Limited KP Snodland Power Limited KP Wind Holdings Limited Kwikpower Australia Pty Limited Kwikpower Energy Holdings Limited Kwikpower International (Maroc) SARL Kwikpower International GmbH Kwikpower International Inc Kwikpower International plc (registered in England and Wales) Kwikpower International SA Kwikpower RSA Pty Limited Lephinmore Windfarm Limited North Otter Windfarm Limited Payshot Limited Plant Tissue Holdings Pty Limited PT Investment Holdings Pty Limited	Kwikpower (GB) Limited Kwikpower International Limited Monaco Securities Limited
Robert Smyth	Rufus Consulting Limited KP Renewables (Operations) Limited	Cavanagh Group plc Cavanagh Financial Services Limited Cavanagh Financial Management Limited Image Africa Limited Heidelberg Pension Fund Trustees Limited
Stephen Drummond	CO2e.com(Australia) Pty Limited CO2e.com (Canada) Company CO2e.com (Canada) Holdings LP CO2e.com (UK) Holdings LP CO2e.com Limited CO2e.com LLC CO2eHLP LLC Emissions Trading Group Limited Heat Recovery Technology Pty Limited Petron Energy Pty Limited	None
Dr David Lindley	Lindley Associates Limited Ocean Power Delivery Limited	None
David Lloyd-Jacob	Kwikpower International SA 28 Lewes Crescent Limited AMFLO Limited Fibaflo Composites Limited Kemp Town Enclosures Limited G.A.P. Activities Projects Inc.	Mine Development Limited Fibaflo Limited Fibagroup Limited

Save for the fact that Stephen Drummond was a partner of the Australian partnership of PricewaterhouseCoopers from July 1999 to February 2001, none of the Directors are partners in a partnership nor have they been partners in any partnership at any time in the previous five years.

Save as disclosed in paragraph 3(j) below, no Director has:

- (i) any unspent convictions in relation to indictable offences;
  - (ii) been bankrupt or entered into any individual voluntary arrangement;
  - (iii) been a director of a company which has been placed into receivership, compulsory liquidation or creditors' voluntary liquidation or administration or which has entered into any company voluntary arrangement or any composition or arrangement with its creditors generally or any class of its creditors, nor have they been a director of any such company within the last 12 months preceding such an event;
  - (iv) been a partner of any partnership which has been put into compulsory liquidation or administration or entered into partnership voluntary arrangements, nor have they been a partner of such partnership within the 12 months preceding such an event;
  - (v) had a receivership of any asset of such Director or of a partnership where he was a partner at the time or within twelve months preceding such event;
  - (vi) been publicly criticised by statutory or regulatory authorities (including recognised professional bodies);
  - (vii) or 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.
- (j) Mr Lloyd-Jacob was a director of Butte Mining plc from April 1991 until it was wound-up by way of a creditors' voluntary liquidation on 4 May 2001. In May 1998, three former directors of Butte Mining plc were convicted of fraud offences in respect of that company, which occurred between 1987 and 1989. After having joined Butte Mining plc as Chairman and Chief Executive Officer in 1991, Mr Lloyd-Jacob discovered the fraud and thereafter concentrated on achieving legal redress against the former directors on behalf of the shareholders. He was also a director of Zirceram Limited, a wholly owned subsidiary of Butte Mining plc, from May 1991 until an order was made to wind the company up by way of a compulsory liquidation on 9 December 1999. These companies incurred non-trading losses of approximately £1.75 million, plus a further disputed amount of approximately £700,000. These losses are potentially mitigated by prospective Inland Revenue related credits of up to approximately £1.06 million which is the subject of ongoing negotiation.

Mr Lloyd-Jacob was appointed a director of Fibagroup Limited on 1 November 2001, which company was placed into administrative receivership on 6 October 2003. Mr Lloyd-Jacob was appointed a director of Fibaflo Limited, a wholly owned subsidiary of Fibagroup Limited, from 20 November 1998. A notice of completion of a corporate voluntary arrangement in respect of Fibaflo Limited was made on 1 October 2003. The aggregate trading losses of these companies at the time of their respective receivership and corporate voluntary arrangement were approximately £1.05 million.

Mr Lloyd-Jacob was the chairman and chief executive officer of the Levinson Steel Company from November 1983 until November 1990, which company filed for a reorganisation in the United States of America under Chapter 11 of the bankruptcy code in May 1990 and emerged from Chapter 11 in 1992.

Dr Watkins was a director of Kwikpower (GB) Limited from 23 May 2000 until an order was made for its compulsory liquidation on 14 August 2002. The total outstanding liability of Kwikpower (GB) Limited at that time was approximately £650,000, of which approximately £525,000 was due to the sole shareholder, Kwikpower International S.A. Dr Watkins was also a director of Kwikpower International Limited from 23 May 2000, until it was dissolved on 10 April 2003.

(k) Directors' service agreements and remuneration

- (i) Each of the non-executive Directors entered into agreements with the Company effective from 30 April 2004 to govern the terms and conditions of their appointment. Each appointment is subject to the appointment and rotational retirement provisions of the Articles of Association of the Company. Each of the non-executive Directors (other than the Chairman) is entitled to a fee of £25,000 per annum. The Chairman is entitled to a fee of £50,000 per annum.
- (ii) Dr James Watkins' services as Chief Executive are provided under the Kwikpower International Services Agreement (as set out in Part I of this document).
- (iii) Robert Smyth entered into a service agreement with the Company on, 18 November 2004, the principal terms of which are that, with effect from such date, he is entitled to a salary of £110,000 per annum, a car allowance of £8,000 per annum, an annual pension contribution equal to 20 per cent. of salary, permanent health insurance, life insurance and private medical insurance. Mr Smyth is also entitled to an annual bonus of up to 120 per cent. of his salary in respect of his performance in each year measured against performance goals established by the Company's remuneration committee at the beginning of each year. Mr Smyth is also entitled to receive discretionary business development awards (payable in Ordinary Shares, options over Ordinary Shares or cash) and to participate in the Share Option Plan. Other than for cause or incapacity, Mr Smyth's service agreement is terminable on six month's written notice by the Company or by Mr Smyth. In the event that the service agreement is terminated by the Company other than for cause or incapacity Mr Smyth is entitled to receive twelve months salary (less any sums paid to Mr Smyth in respect of salary during the six months' notice period) and is also entitled to exercise his vested share options granted pursuant to the Share Option Plan *pro rata* to the time employed since the last vesting date or to receive a cash equivalent amount. The Company is entitled to terminate the service agreement at any time within three months following a change of control of the Company. If the Company so terminates, Mr. Smyth shall be entitled to receive two years' salary in addition to payment in respect of the six months' notice period and a payment in respect of any unvested share options granted pursuant to the Share Option Plan.
- (l) Save as set out above in paragraphs 3(k)(i) to 3(k)(iii) inclusive, there are no service agreements in existence between any of the Directors of the Company or any of its subsidiaries which cannot be determined by the employing company without payment of compensation within one year.
- (m) The aggregate remuneration payable and benefits in kind granted to the Directors is expected to be £187,427, for the current financial period ending 31 December 2005 under the arrangements in force at the date of this document.
- (n) *Substantial shareholders*

As at the date of this document the Company is aware of the following persons, who are and on completion of the Offer for Subscription will be, directly or indirectly interested in 3 per cent. or more of the issued share capital of the Company:

	At the date of this document		On completion of the Offer for Subscription	
	Number of Ordinary Shares	Percentage of issued share capital	Number of Ordinary Shares	Percentage of issued share capital <sup>1</sup>
Kwikpower International	34,000,200	82.33	34,000,200	55.47

Notes:

- 1 Assuming that the maximum number of Subscription Shares are subscribed pursuant to the Offer for Subscription.

(o) Other interests

- (i) At the date of this document, the following former directors of the Company hold the following options over Ordinary Shares:

	<i>Number of Ordinary Shares Under option</i>	<i>Date granted</i>	<i>Exercise period</i>	<i>Exercise price</i>
Philip Taylor	600,000	17th June 2004	up to 17 June 2009	1p
Elaine Delamer House <sup>1</sup>	850,000	5th January 2005	up to 5 January 2010	1p

<sup>1</sup> Such options are held on behalf of Elaine Delamer House by Castle Trust and Management Services Limited as trustees of Kwikpower Employee Benefit Trust.

- (ii) Under the terms of a settlement agreement entered into on 16 May 2005 between the Company, KP Renewables (Operations) and KBC Peel Hunt Limited ("KBC Peel Hunt"), it was agreed to terminate the engagement letter dated 16 October 2003 between KBC Peel Hunt and KP Renewables (Operations) in consideration of the Company, on Admission: (i) paying to KBC Peel Hunt £75,000 in cash (exclusive of VAT); and (ii) issuing to KBC Peel Hunt a warrant ("Warrant") in respect of such number of Ordinary Shares as is equal to £250,000 at the last price at which the Ordinary Shares were subscribed prior to Admission (the "Admission Price") (the "Warrant Shares").

Under the terms of the Warrant, the Company granted to KBC Peel Hunt a right to subscribe for the Warrant Shares at the Admission Price for a period commencing on the date of Admission and expiring on the fifth anniversary of such date.

- (iii) Under the terms of a marketing agreement entered into on 16 May 2005 between Kwikpower International and BizzEnergy, it was agreed that in full and final settlement of sums due in respect of marketing services to KP Renewables (Operations), the Company shall on or before the date of Admission issue to BizzEnergy such number of Ordinary Shares as is equal to £185,000 at the IPO Subscription Price. The terms of the marketing agreement are subject to Admission occurring on or before 31 July 2005.

#### 4. Memorandum and Articles of Association

- (a) The Memorandum of Association of the Company provides that its principal object is to carry on business as a general commercial company.
- (b) The Articles of Association of the Company ("Articles") contain provisions *inter alia* to the following effect:

(i) *Voting*

At a general meeting of the Company, subject to any rights or restrictions attaching to any shares, on a show of hands every shareholder present in person, or in the case of a corporation present by a duly authorised representative, has one vote. On a poll every shareholder has one vote for every share of which he is the holder. No shareholder may attend or vote at a general meeting in respect of any share held by him unless all amounts payable by him to the Company in respect of such share have been paid.

(ii) *Dividends*

Subject to the Articles and the rights attached to any shares, all dividends are to be declared and paid according to the amounts paid up (otherwise than in advance of calls) on the nominal value of the shares during the period in respect of which the dividend is paid or otherwise in accordance with the terms concerning entitlement to dividends on which such shares were issued. All unclaimed dividends may be made use of by the Board for the benefit of the Company until claimed. Any dividend unclaimed after a period of twelve years shall revert to the Company.

(iii) *Return of capital*

On a winding up of the Company any surplus assets will be divided between shareholders according to the respective amounts paid up or credited as paid up in respect of the nominal amount of the shares held by them, subject to any rights attaching to any shares. The liquidator may divide the assets of the Company among the shareholders, set the value he deems fair on any property of the Company and determine how the division is to be carried out between shareholders or classes of shareholders, subject to any sanction then required by law. The liquidator may not distribute to a shareholder without his consent an asset to which there is attached a liability or potential liability for the owner.

Subject to the Act, any share may be issued which is, or is liable to be redeemed at the option of one or both of the Company or the shareholder. Subject to the Act and to any rights attached to the shares the Company may purchase its own shares of any class.

(iv) *Share transfers*

A shareholder may transfer any of his shares by an instrument of transfer in writing in any usual form or in another form approved by the Board or, without a written instrument subject to the class of shares becoming a participating security for the purposes of the CREST Regulations. The transferor will remain the holder of the share transferred until the name of the transferee is entered in the Company's register of members in respect of it.

The Board may refuse to register a transfer of a certificated share which is in respect of a partly paid share, is in favour of more than four transferees, is not duly stamped (if required) or is not delivered for registration with the appropriate evidence of the transferor's title to the Company's registered office or such other place as the Board may decide.

The Board is required to register a transfer of an uncertificated share in accordance with the CREST Regulations, except that the Board may refuse to register any such transfer which is in favour of more than four persons jointly or in any other circumstance permitted by the CREST Regulations.

If the Board refuses to register a share transfer, it must send notice of the refusal to the transferee within two months following the delivery of the transfer to the Company. No fee is chargeable by the Company for the registration of a share transfer. The registration of share transfers may be suspended at such times and for such periods (not exceeding 30 days in any year) as the Board may decide (subject, where applicable, to the CREST Regulations).

If the Company gives a notice under section 212 of the Act in relation to any shares to their holder or to another person appearing to be interested in such shares and the recipient fails in relation to any shares ("Default Shares") to give the Company the information required within 14 days after the date of the notice, such holder is not entitled (unless the Board otherwise decides) to attend a general meeting or exercise any other right in respect of any such share in relation to a general meeting or a poll. Where such shares represent at least 0.25 per cent. in nominal value of the issued shares or (if applicable) the issued shares of their class, (subject to the CREST Regulations in the case of any uncertificated shares) the Company may withhold any dividend on such shares without interest being payable on the dividend, the holder will not be entitled to elect to receive shares instead of such dividend and the Board may refuse to register the transfer of any such shares unless:

- (A) the holder is not himself in default in supplying the information required by the section 212 notice and proves to the satisfaction of the Board that no person in default of supplying such information is interested in any of the shares which are the subject of the transfer; or
- (B) the transfer is made pursuant to acceptance of a takeover offer (as defined in section 428 of the Act) for the Company or in relation to any of its shares or in consequence of a sale made through the London Stock Exchange or any stock exchange selected by the Company outside the United Kingdom on which the Company's shares are normally traded or is shown to the Board's satisfaction to be made in consequence of a sale in good faith of the whole of the beneficial interest in the shares to a person who is unconnected with the holder and with any other person appearing to be interested in the shares.

In respect of any Default Shares which are in uncertificated form the Board may require their holder to change them from uncertificated form into certificated form within a period specified in a written notice given to such holder and then to hold such Default Shares in certificated form for so long as the default subsists. Additionally, the Board may appoint any other person to take any steps in the name of such holder as may be required to change such shares from uncertificated form into certificated form.

(v) *Changes in share capital*

The Company may by ordinary resolution increase, consolidate, divide or sub-divide any of its share capital or cancel shares which have not been taken or agreed to be taken by a person and diminish the amount of its share capital as appropriate. Subject to the Act and to any rights attached to any shares, the Company may by special resolution reduce its share capital, any capital redemption reserve and any share premium account.

(vi) *Changes in class rights*

If the Company's share capital is divided into shares of different classes, any rights attached to any class of share may be varied or abrogated either with the consent in writing of the holders of not less than three-quarters in nominal value of the issued shares of the class or with the sanction of an extraordinary resolution passed at a separate meeting of the holders of the class.

(vii) *Directors*

(A) *Interests in contracts and other arrangements*

A Director may not vote on, or be counted in the quorum in relation to, any resolution of the Board or Board committee concerning any proposal to which the Company is or is to be a party and in which he has a material interest (otherwise than by virtue of his interests in shares or debentures or other securities of, or otherwise in or through, the Company), other than a resolution:

- (i) relating to the giving of any security, guarantee or indemnity to him in respect of money lent or obligations incurred by him or by any other person at the request of or for the benefit of a Group member;
- (ii) relating to the giving of any security, guarantee or indemnity in respect of a debt or obligation of a Group member for which he himself has assumed responsibility in whole or in part under a guarantee or indemnity or by the giving of security;
- (iii) relating to, or in the context of, an offer of securities by a Group member in which he is or may be entitled to participate as a holder of securities or in the underwriting or sub-underwriting of which he is to participate;
- (iv) relating to another company in which he does not have to his knowledge an interest in shares (as that term is used in sections 198 to 212 of the Act) representing 1 per cent. or more of any class of the equity share capital of, or the voting rights in, such company;
- (v) relating to an arrangement for the benefit of employees of any Group member which does not award him any privilege or benefit not generally awarded to the employees to whom such arrangement relates; or
- (vi) concerning insurance which the Company proposes to maintain or purchase for the benefit of persons including Directors.

A Director shall not vote or be counted in the quorum on any resolution of the Board or Board committee concerning his own appointment as a holder of any office or place of profit with the Company or any company in which the Company is interested.

The interest of a person who is for the purposes of the Act connected (within the meaning of section 346 of the Act) with a Director shall be (if known by the Director to be an interest of any such connected person) treated as the interest of the Director. In relation to any alternate director,

the interest of the Director who appointed him shall be treated as the interest of the alternate director in addition to any other interest which the alternate director has.

*(B) Remuneration, pensions and other benefits*

Unless otherwise decided by ordinary resolution, the Company may pay to the non-executive Directors for their services as non-executive Directors an aggregate amount of fees (not exceeding £300,000 per annum) as the Board decides. Such amount is to be divided among the Directors in such proportion as the Board decides or, if no such decision is made, equally. A Director may also be paid all expenses properly incurred by him in connection with the discharge of his duties, including any professional fees, and such reasonable additional remuneration and expenses as the Board may decide in respect of his performance of special services for the Company.

The remuneration of an executive Director may be a fixed sum of money, profit-related or otherwise determined using a method of calculation as decided by the Board, and may be in addition to or instead of a fee payable to him for his services as a Director.

The Board may exercise all the Company's powers to provide pensions or other benefits to any person who is or has at any time been a director of any Group member or any other company otherwise associated with or allied to the Company and to any member of such person's family.

*(C) Borrowing powers*

The Board may exercise all the Company's powers to borrow money and to mortgage or charge all or part of the undertaking, property and assets (present or future) and uncalled capital of the Company and, subject to the Act, to create and issue debentures and other securities, whether outright or as collateral security for a debt, liability or obligation of the Company or of a third party.

The Board is required to restrict the Company's borrowings and to exercise all voting and other rights and powers of control exercisable by the Company in relation to other Group members so as to ensure (as regards other Group members, to the extent possible by such exercise) that the aggregate principal amount outstanding in respect of monies borrowed by Group members does not at any time, without the previous sanction of an ordinary resolution, exceed the greater of £400,000,000 and two and a half times the Company's adjusted capital and reserves (as defined in the Articles).

*(D) No age limit*

No person shall be disqualified from being appointed or re-appointed as a Director and no Director shall be requested to vacate office by reason of attaining the age of seventy or any other age.

*(E) Re-election*

At every annual general meeting of the Company as near as possible (but not exceeding) one third of the Directors for the time being shall retire by rotation and be eligible for re-election. The Directors to retire will be those who have been longest in office or, in the case of those who became or who are re-elected Directors on the same day, shall, unless they otherwise agree, be determined by lot.

## **5. Material contracts**

The following contracts have been entered into by the Company and/or other members of the Group within the two years immediately preceding this document and remain outstanding and are or may be material in the context of the Group's business:

*(a) SSE - Agreement for the sale and purchase of renewable energy*

Pursuant to an agreement for the sale and purchase of renewable energy (the "SSE Framework Agreement") dated 4 July 2003 and made between KP Renewables (Operations) and SSE, KP Renewables (Operations) has the right to require SSE to purchase from KP Renewables (Operations) renewable energy - generated by facilities which are developed by KP Renewables (Operations) within England, Wales and Scotland and which are notified by KP Renewables (Operations) to SSE ("Plants"). The parties acknowledge that the SSE

Framework Agreement allows KP Renewables (Operations) to develop, finance, construct and commission a series of renewable energy plants in the knowledge that SSE will take and pay for the energy and associated benefits (including ROCs and LECs) from each Plant.

KP Renewables (Operations)'s ability to notify Plants to SSE under the SSE Framework Agreement continues until the earlier of: (a) the date on which SSE has entered into contracts with KP Renewables (Operations) having a total aggregate contracted capacity of 70MW ("Aggregate Capacity") or (b) 4 July 2006.

The SSE Framework Agreement contains the following terms:

- (i) KP Renewables (Operations) shall use its reasonable endeavours to finance, construct, commission and operate Plants up to the Aggregate Capacity. If by 4 July 2005, KP Renewables (Operations) has not notified SSE in respect of Plants having an aggregate contracted capacity of 30MW, then at SSE's request, KP Renewables (Operations) will ensure that, from the date of such request until the termination of the SSE Framework Agreement, it will allocate all Plants to be developed by KP Renewables (Operations) to SSE to meet the difference between the aggregate contracted capacity at 4 July 2005 and 50MW.
- (ii) the obligations of SSE differ according to whether the Plant notified to SSE by KP Renewables (Operations) (by a "Project Notice") is "Outside the Fence" (meaning a Plant where all the electricity generated (except for essential parasitic and auxiliary loads used for its operation) will be exported from the Plant to the delivery point using the electricity distribution system of the Local Distribution Network Operator nominated by KP Renewables (Operations)) or "Inside the Fence" (meaning a Plant which is not Outside the Fence);
- (iii) energy and associated benefits generated by a Plant that is Outside the Fence must be purchased by SSE in accordance with terms which are set out in a schedule to the SSE Framework Agreement (the "SSE Outside the Fence Power Purchase Terms") and which are summarised in paragraph 5(a)(vi) below;
- (iv) energy and associated benefits generated by a Plant that is Inside the Fence must be purchased by SSE in accordance with terms which are set out in a schedule to the SSE Framework Agreement (the "SSE Inside the Fence Power Purchase Terms") and which are summarised in paragraph 5(a)(vii) below;
- (v) the SSE Framework Agreement may be terminated forthwith by either party if the other party: (a) defaults in the performance of any of its material obligations under the SSE Framework Agreement; or (b) becomes the subject of receivership, liquidation, insolvency, administration or other similar proceedings;
- (vi) the SSE Outside the Fence Power Purchase Terms include the following:
  - (A) KP Renewables (Operations) will sell and SSE will buy the energy and associated benefits up to the amount specified in the Project Notice (the "Contracted Capacity") until 30 June 2012 or the termination of the SSE Outside the Fence Power Purchase Terms (if earlier);
  - (B) KP Renewables (Operations) warrants that: it has the power to enter into all its obligations under the SSE Outside the Fence Power Purchase Terms; on the commissioning date of each Plant it will have the power to perform and comply with its obligations under such terms; it will maintain at all relevant times *inter alia* all necessary licences, authorisations, permits necessary for the construction, commissioning and operation of the Plant; and the energy, ROCs and LECs sold to SSE pursuant to such terms will be sold with full title guarantee and as beneficial owner;
  - (C) SSE will take and pay for renewable energy, ROCs, LECs and other benefits generated by each Plant. Payments over the term of the SSE Outside the Fence Power Purchase Terms are a pre-agreed percentage of the actual market price for each element of value, all subject to a firm aggregate floor price;
  - (D) six months prior to 30 June 2012, KP Renewables (Operations) will give SSE an option to purchase the energy and associated benefits generated by the Plant for an additional three years



on reasonable commercial terms, before offering the energy and associated benefits under terms no more favourable to a third party;

(E) the SSE Outside the Fence Power Purchase Terms may be terminated forthwith:

(a) by either party if the other party: (a) defaults in the performance of any of its material obligations under the SSE Framework Agreement and in the case of a default which is, in the reasonable opinion of the terminating party (acting reasonably), capable of remedy such default continues unremedied at the expiry of 30 days following the date on which the terminating party gives notice; or (b) becomes the subject of receivership, liquidation, insolvency, administration or other similar proceeding; or

(b) by SSE if: (a) KP Renewables (Operations) ceases to be authorised to generate electricity or ceases to be exempt from the requirement to hold a licence to generate electricity; (b) the Plant fails to generate energy for a continuous period of six months after the commissioning date; or (c) KP Renewables (Operations) fails to deliver ROCs for a continuous period of six months after the commissioning date (unless as a result of the repeal of the RO).

(vii) The principal provisions of the SSE Inside the Fence Power Purchase Terms are similar to those of the SSE Outside the Fence Power Purchase Terms as set out in paragraph (vii) above, except that KP Renewables (Operations) will sell and SSE will buy the Contracted Capacity and SSE will sell and KP Renewables (Operations) will buy the "On-Site Energy" (meaning that portion of the electricity generated by the Plant which is not used for the operation of the Plant and is not exported to the electrical distribution system).

(b) *BizzEnergy - Framework agreement for the sale and purchase of renewable energy*

Pursuant to a framework agreement dated 30 July 2003 (as amended by an amendment agreement dated 16 May 2005) (the "BizzEnergy Framework Agreement") and made between KP Renewables (Operations) and BizzEnergy, KP Renewables (Operations) has the right to require BizzEnergy to purchase from KP Renewables (Operations) renewable energy generated by facilities which are developed by KP Renewables (Operations) within England and Wales and which are notified by KP Renewables (Operations) to BizzEnergy ("Plants"). The parties acknowledge that the BizzEnergy Framework Agreement allows KP Renewables (Operations) to develop, finance, construct and commission a series of renewable energy plants in the knowledge that BizzEnergy will take and pay for the energy and associated benefits (including ROCs, REGO's and LECs) ("Output") from each Plant.

KP Renewables (Operations)'s ability to notify Plants to BizzEnergy under the BizzEnergy Framework Agreement continues until the earlier of: (a) the date on which BizzEnergy has entered into obligations having a total aggregate contracted output of 150MW or (b) 30 June 2008.

The BizzEnergy Framework Agreement contains the following terms:

- (i) the obligations of BizzEnergy differ according to whether the Plant notified to BizzEnergy by KP Renewables (Operations) (by a "Project Notice") is "Outside the Fence" (meaning a Plant where all of the electricity generated by the Plant (except for power used for the operation of the Plant) will be exported from the Plant using part of the lines or system or other premises of the Local Distribution Network Operator) or "Inside the Fence" (meaning a Plant which is not Outside the Fence);
- (ii) Output generated by Plants that are Outside the Fence must be purchased by BizzEnergy in accordance with terms which are set out in a schedule to the BizzEnergy Framework Agreement (the "BizzEnergy Outside the Fence Contract Terms") and which are summarised in paragraph 5(b)(viii) below;
- (iii) if the Plant is Inside the Fence, the parties must use their reasonable endeavours to negotiate in good faith and enter into an agreement for the purchase by BizzEnergy of the Output generated by such Plant on terms which are substantially similar to those set out in a schedule to the BizzEnergy Framework Agreement (the "BizzEnergy Inside the Fence Contract Terms") and which are summarised in paragraph 5(b)(ix) below within 30 banking days of the date on which: (a) BizzEnergy receives the relevant Project Notice; or (b) the parties agree that an Outside the Fence Plant is or has become an Inside the Fence Plant. If no such agreement is reached within such period of 30 banking days then KP Renewables (Operations) has the right to sell the Output from such Plant to a third party;

- (iv) BizzEnergy may reject any Project Notice without liability if it would result in Plants with a total aggregate contracted output of more than 20MW (the "Commissioning Target") reaching their commissioning dates within any three month period;
- (v) if by the earlier of the second anniversary of the date of Admission or 30 June 2007, KP Renewables (Operations) has not: (a) commissioned Plants; or (b) commenced the construction of Plants which are the subject of Project Notices with a total aggregate contracted output of 40MW, then the Commissioning Target will reduce to 10MW for the remainder of the term of the BizzEnergy Framework Agreement;
- (vi) if the commissioning date of any Plant does not occur within six months of the end of the term of the BizzEnergy Framework Agreement (31 December 2008), BizzEnergy may (without liability) serve notice on KP Renewables (Operations) stating that it will not purchase output from such Plant;
- (vii) the BizzEnergy Framework Agreement may be terminated forthwith:
  - (A) by either party if the other party: (a) defaults in the performance of any of its material obligations under the BizzEnergy Framework Agreement; or (b) becomes the subject of receivership, liquidation, insolvency, administration or other similar proceeding;
  - (B) by BizzEnergy if a competitor of BizzEnergy controls KP Renewables (Operations).
- (viii) the BizzEnergy Outside the Fence Contract Terms include the following terms:
  - (A) KP Renewables (Operations) will sell and BizzEnergy will buy the metered Output and associated benefits up to the amount specified in the Project Notice (the "Contracted Output") for a period of ten years from the first date of metered output from the Plant (the "Commissioning Date") or until the termination of the BizzEnergy Outside the Fence Contract Terms (if earlier);
  - (B) KP Renewables (Operations) warrants that: it has the power to enter into all its obligations under the BizzEnergy Outside the Fence Contract Terms; on the commissioning date of each Plant it will have the power to perform and comply with its obligations under such terms; it will maintain at all relevant times all necessary licences, authorisations, permits, etc. necessary for the construction, commissioning and operation of the Plant; and it will sell the Output, ROCs and LECs to BizzEnergy with full title guarantee and as beneficial owner;
  - (C) BizzEnergy will take and pay for renewable energy, ROCs, LECs and other benefits generated by each Plant. Payments over the term of the BizzEnergy Outside the Fence Power Purchase Terms are a pre-agreed percentage of the actual market price for each element of value, all subject to a firm aggregate floor price;
  - (D) the BizzEnergy Outside the Fence Contract Terms may be terminated forthwith:
    - (a) by either party if the other party: (a) defaults in the performance of any of its material obligations under the BizzEnergy Framework Agreement and in the case of a default which is, in the reasonable opinion of the terminating party (acting reasonably), capable of remedy such default continues unremedied at the expiry of 60 days following the date on which the terminating party gives notice; or (b) becomes the subject of receivership, liquidation, insolvency, administration or other similar proceeding; or
    - (b) by BizzEnergy if: (a) KP Renewables (Operations) ceases to be authorised to generate electricity or ceases to be exempt from the requirement to hold a licence to generate electricity; (b) during any 12 month period after the Commissioning Date, KP Renewables (Operations) delivers a quantity of electricity which is less than the Contracted Output multiplied by 5,700 hours; (c) the Plant becomes Inside the Fence; (d) a competitor to BizzEnergy has control over KP Renewables (Operations); or (e) during any obligation period (as determined in the RO) more than 10 per cent. of ROCs transferred to BizzEnergy are revoked due to manifest fraud by KP Renewables (Operations);

- (E) if either party is affected by force majeure the party affected shall take all reasonable steps to minimise the effect on the performance of its obligations but it shall not be in breach or otherwise liable for any delay in performance or non-performance to the extent due to force majeure. If the event of force majeure continues for a period of more than 24 months then either party may terminate the contract;
- (ix) the principal provisions of the BizzEnergy Inside the Fence Contract Terms are similar to the BizzEnergy Outside the Fence Contract Terms as set out in paragraph 5(b)(viii) above, except that BizzEnergy grants to KP Renewables (Operations) the sole and exclusive right to purchase from BizzEnergy the energy consumed by the Facility (being the commercial or industrial installation named in a schedule to the BizzEnergy Inside the Fence Contract Terms and where the Plant is located and which consumes the majority of the electricity generated by the Plant) up to the Contracted Output at a price per MWh equal to the price paid by BizzEnergy in respect of electricity;
- (x) the Bizzenergy Framework Agreement is conditional upon KP Renewables (Operations) or the Company having procured Admission with a combination of a fund raising and/or availability of a facility enabling either company to call for equity subscriptions in excess of £5.0 million, or any other equity fund raising in excess of £5.0 million on or before 30 June 2005.

(c) *British Gas - Electricity and associated benefits sale agreement*

Pursuant to an electricity and associated benefits sale agreement dated 14 November 2003 (as amended by an amendment agreement dated 31 January 2005) (the "British Gas Agreement"), and made between KP Renewables (Operations) and British Gas, KP Renewables (Operations) has, subject to the conditions set out below, the right to require British Gas to purchase all electricity generated by renewable energy power generation facilities which are developed by KP Renewables (Operations) within Great Britain ("Generating Stations") and which are notified to British Gas ("Facilities") and all associated benefits (including ROCs and LECs).

The British Gas Agreement contains the following terms:

- (i) the obligations of British Gas differ according to whether the Facility is an "Outside the Fence Facility" (meaning a Facility from which KP Renewables (Operations) wishes to sell the electricity generated by it to British Gas) or an "Inside the Fence Facility" (meaning a Facility from which KP Renewables (Operations) wishes to sell electricity to British Gas and simultaneously purchase it back from British Gas in order for the electricity to qualify for a ROC);
- (ii) nominations by KP Renewables (Operations) detailing the Facilities which it wishes to be covered by the British Gas Agreement ("Facility Nominations") cannot be made: (a) if they would cause the contract capacity to exceed 300MW (the "Maximum Amount") or (b) after 30 November 2006 or, if earlier, the date there has been a "Facility Failure" (meaning that the aggregate number of the ROCs which have been transferred to the ROC account of British Gas (and have not subsequently been revoked) as at 31 December 2005 is less than 30,000 ROCs). Each Facility Nomination shall be in respect of the entire output of the Facility to which it relates;
- (iii) in respect of each Outside the Fence Facility, KP Renewables (Operations) shall sell and deliver to British Gas exclusively and British Gas shall purchase the electricity generated by the Facility until the date stated in the Facility Nomination (which shall be no later than the earlier of (a) the tenth anniversary of the applicable Facility start date and (b) 31 March 2016);
- (iv) in respect of each Inside the Fence Facility, KP Renewables (Operations) shall sell and British Gas shall purchase the electricity generated by the Facility and British Gas shall simultaneously sell the same amount of such electricity back to KP Renewables (Operations) until the date stated in the Facility Nomination (which shall be no later than the earlier of (a) the tenth anniversary of the applicable Facility start date and (b) 31 March 2016);
- (v) KP Renewables (Operations) shall sell and British Gas shall purchase all associated benefits related to the electricity that British Gas has purchased;

- (vi) British Gas will take and pay for renewable energy, ROCs, LECs and other benefits generated by each Plant. Payments over the term of the British Gas Outside the Fence Power Purchase Terms are a pre-agreed percentage of a defined market price for each element of value, all subject to a firm aggregate floor price;
- (vii) if either party is prevented from carrying out any one or more of its obligations by reason of a force majeure, then that party will be relieved of its obligations to the extent that it is prevented by force majeure from complying with them;
- (viii) KP Renewables (Operations) covenants that it will procure that its affiliates owning assets which form part of a Facility will not dispose of such assets unless such disposal is to another affiliate of KP Renewables (Operations);
- (ix) either party may terminate the British Gas Agreement on 20 days' notice in the event that the other party:
  - (A) becomes the subject of receivership, liquidation, insolvency, administration or other similar proceeding;
  - (B) has made a false or materially misleading representation or warranty;
  - (C) has not paid any amount due under the British Gas Agreement within three banking days of having received notice of such non payment by the other party; or
  - (D) has failed to perform any other material obligation under the British Gas Agreement within five banking days of having received notice of such failure by the other party.
- (x) each party warrants to the other that: (a) it has the power to perform its obligations; and (b) all governmental and other licences that are required to enable it to fulfil its obligations have either been obtained or will be obtained prior to the start date for each Facility. KP Renewables (Operations) warrants that it will have title to the electricity and associated benefits delivered to British Gas free from any encumbrances.

(d) *Nominated Adviser engagement letter*

On 24 March 2005 the Company entered into an agreement with Deloitte & Touche LLP ("Deloitte") pursuant to which the Company appointed Deloitte to act as nominated adviser to the Company for the purposes of the AIM Rules. Under the terms of the agreement the Company agreed to pay the following fees to Deloitte with effect from Admission:

- (i) a success fee of either: (a) one per cent. of equity funds raised on Admission or (b) options to subscribe for Ordinary Shares to a value of £250,000 (50 per cent. of which shall be exercisable at the IPO Subscription Price and the remaining 50 per cent. shall be exercisable at one hundred and twenty per cent. of the IPO Subscription Price), the form of such success fee is to be decided prior to Admission by Deloitte;
- (ii) a fixed fee of £150,000; and
- (iii) an annual retainer of £30,000 plus VAT.

The agreement contains undertakings and indemnities by the Company which are typical in the context of the appointment of nominated advisers by a company proposing to make an application for admission to AIM.

Under the terms of the agreement the Company may terminate the engagement of Deloitte at any time by written notice.

(e) *Warranty letter from the Company and the Directors*

On 18 May 2005 the Company and the Directors provided certain warranties to Deloitte as to the accuracy of the information contained in this document and other matters relating to the Group and its business. Such warranties are typical in the context of a company proposing to make an application for admission to AIM. The warranty letter also contains certain restrictions on the disposal of shares in the Company held by or on behalf of the Directors.

**6. Share Option Plan**

On 17 June 2004, the Company adopted the Share Option Plan. The principal features of the Share Option Plan, the terms of which are set out in the rules, are as follows:

(a) *Regulation*

The Share Option Plan will be regulated by the Board or a committee of the Board. In practice, operation of the Share Option Plan will be delegated to the Remuneration Committee.

(b) *Eligible employees*

All employees (including executive directors) of the Group are eligible for selection by the Remuneration Committee to participate in the Share Option Plan, provided that an employee who is an executive director of any company in the Group must work at least 25 hours a week (excluding meal breaks) for the Group. Options will not be granted to employees who are within six months of their normal retirement date.

(c) *Grants of options*

- (i) Options may be granted by the Company or by any other person who has agreed with the Company to do so.
- (ii) Options may be granted during each period commencing on the third dealing day after and ending on the 42nd day after: (a) Admission; (b) the first and second anniversary after Admission; and/or (c) after the announcement of the Company's results for any period to AIM. Options may also be granted at any time when the remuneration committee resolves that exceptional circumstances exist which justify the grant of an option or options. Options may not be granted more than ten years after the Share Option Plan was adopted by shareholders.
- (iii) The remuneration committee may in its discretion impose performance conditions and determine which eligible directors and employees are to be granted options and the number of Ordinary Shares to be comprised in such options.
- (iv) No payment is required for the grant of an option. Options granted will be personal to the participants to whom they are granted and may not be transferred or assigned. However, they will be exercisable by the legal personal representative of a participant who dies before exercising his option.

(d) *Option price*

The price per Ordinary Share payable on the exercise of an option will be determined by the Remuneration Committee and will not be less than their market value at the time of grant determined in accordance with the rules, subject, in the case of options to subscribe for unissued Ordinary Shares, to a minimum price equal to the nominal value of an Ordinary Share.

(e) *Exercise of options*

- (i) An option will not normally be exercisable until three years from the date of its grant and then only if the participant remains a director or employee.
- (ii) An option may, however, be exercised after a participant ceases to hold office or employment, notwithstanding that such period of three years has not elapsed, if the cessation is by reason of death or on account of injury, disability, retirement, redundancy, the sale of the business or subsidiary for

which the employee works, the participant's duties being substantially changed from those set out in his service agreement, the participant's removal from the Board by the Company or the Company requiring the participant to perform his duties under the terms of his service agreement in an area different to that envisaged in the service agreement which results in a materially more difficult journey to work. If a participant ceases to be employed for any other reason the Remuneration Committee has discretion to permit exercise after cessation of employment. Options will lapse if the participant ceases employment otherwise than in the circumstances referred to above.

- (iii) Exercise is allowed in the event of an amalgamation, reconstruction or takeover of the Company notwithstanding that such period of three years has not elapsed. Alternatively, options may, with the agreement of the acquiring company, be exchanged for options over shares in the acquiring company or a company associated with the acquiring company. Options may also similarly be exercised in the event of a voluntary winding-up or demerger of the Company.

- (iv) An option may not be exercised after the expiry of a period of ten years from the date of its grant or such shorter period as may be specified at the time of grant.

(f) *Issue or transfer of Ordinary Shares on exercise of options*

Ordinary Shares issued or transferred following exercise of an option will rank *pari passu* in all respects and form one class with the Ordinary Shares then in issue, save as regards dividends payable by reference to a record date prior to the date of allotment or transfer.

(g) *Limits on the issue of Ordinary Shares*

- (i) In any ten year period the aggregate of the number of unissued Ordinary Shares placed under option in that period under the Share Option Plan and any other share option plans of the Company, and the number of Ordinary Shares issued in that period pursuant to any other employees' share schemes of the Company shall not exceed 10 per cent. of the Company's issued ordinary share capital for the time being.
- (ii) For the purposes of the above limit, options which have lapsed cease to count. Furthermore, Ordinary Shares issued to any employee benefit trust for the purpose of satisfying options granted by the Company under any of its share option schemes will be treated for the purposes of the limits described above as having been issued on the date of grant of such options and will not be double counted. Any options or rights to acquire Ordinary Shares granted before Admission will be excluded from this limit.

(h) *Adjustments*

The number of Ordinary Shares subject to any option and the option price are subject to appropriate adjustment in the event of any capitalisation issue (other than a scrip dividend which is not an enhanced scrip dividend) or rights issue by the Company or any consolidation, sub-division or reduction of the Company's share capital or any other variation in the Company's share capital.

(i) *Amendments*

No amendment to the advantage of participants to the provisions relating to the limit on the number of Ordinary Shares which may be issued, the exercise price or option price will be made without the prior approval of the Company's shareholders in general meeting unless the amendment is minor and to benefit the administration of the Share Option Plan, to take account of any changes in legislation or to obtain or maintain favourable taxation, exchange control or regulatory treatment for the Company, a subsidiary of the Company or an associated company or any participating company.

(j) *Benefits non-pensionable*

Options granted and Ordinary Shares acquired under the Share Option Plan are non-pensionable.

## 7. Taxation

- (a) The following paragraphs include advice received by the Directors about the current taxation position of shareholders who are resident or ordinarily resident in the UK for taxation purposes in respect of their holdings of Ordinary Shares in the capital of the Company and who hold their Ordinary Shares as investments. The statements below are intended only as a general guide and do not constitute advice to any shareholder on his or her personal tax position and may not apply to certain classes of investor (such as dealers, charities or pension providers). The comments are based on current legislation and Inland Revenue practice. Levels of taxation may change from time to time. Any investor who is in any doubt as to his or her tax position, or who may be subject to tax in any other jurisdiction, should consult his or her professional adviser.

### (b) *Taxation of Dividends*

A dividend paid to a non-corporate shareholder is treated as being paid with a tax credit equal to one ninth of the net dividend. A dividend of £90 would therefore have an accompanying tax credit of £10. Individual shareholders whose income including the dividend and tax credit is within the lower or basic rate bands will be liable to the "Schedule F Ordinary Rate" of income tax at 10 per cent. in 2005/06 on the aggregate of the dividend and the tax credit. The tax credit will therefore satisfy their income tax liability on the dividend. Individual shareholders who are liable to income tax at the higher rate of tax will be charged to the "Schedule F Upper Rate" of tax at 32.5 per cent. in 2005/06 on the aggregate of the dividend and the accompanying tax credit. The 10 per cent. tax credit is set against the income tax liability of 32.5 per cent. leaving an additional income tax liability of 22.5 per cent. Where an individual's total income including the dividend and the tax credit does not exceed the individual's personal allowance and the tax credit is not used, it is not refunded.

Subject to certain exceptions for certain insurance companies which hold shares as trading stock, a UK corporate shareholder who receives a dividend paid by the Company will not be taxable on the dividend. Since July 1997 pension providers and most UK corporate shareholders have not been entitled to payment of tax credits by the Inland Revenue.

Persons who are not resident in the UK or are subject to tax in a jurisdiction other than the UK should consult their own tax advisers on whether they can benefit from all or part of any tax credit and what relief or credit they can receive in the jurisdiction in which they are resident.

### (c) *Taxation of chargeable gains*

If a shareholder disposes of all or any of the Ordinary Shares acquired in the Offer for Subscription he or she may, depending on the shareholder's particular circumstances, incur a liability to taxation on chargeable gains. Individuals, personal representatives and trustees, may be entitled to taper relief, which will serve to reduce the chargeable gain. UK resident companies and permanent establishments of non-resident companies are not entitled to taper relief, but may claim indexation allowance to reduce the chargeable gain.

### (d) *Stamp duty and stamp duty reserve tax*

- (i) Generally, no stamp duty or stamp duty reserve tax ("SDRT") will be payable by subscribers on the issue to them of Ordinary Shares pursuant to the Offer for Subscription.
- (ii) Any subsequent transfer or sale of Ordinary Shares will generally give rise to a liability on the purchaser to *ad valorem* stamp duty currently at a rate equivalent to £5 for every £1,000 or part of £1,000 of the consideration paid rounded up to the nearest multiple of £5. An unconditional agreement (and conditional agreements on the date the agreement becomes unconditional) to transfer such Shares will be subject to SDRT at a rate of 0.5 per cent. of the consideration paid. However, when an instrument of transfer is executed and duly stamped before the expiry of a period of six years beginning with the date of that agreement (or the date on which the agreement becomes unconditional), a claim can normally be made to cancel or obtain repayment of the SDRT liability.

- (iii) Special rules apply to the agreements made by market makers in the ordinary course of their business, broker-dealers and certain other persons. Agreements to the transfer of Ordinary Shares to charities will not give rise to SDRT or stamp duty.

## **8. Litigation**

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

## **9. General**

- (a) The Directors are of the opinion, having made due and careful enquiry, that, assuming the net proceeds of the Offer for Subscription are at least £2,850,000, the amount of working capital available to the Group will be sufficient for the Group's present requirements, that is for at least twelve months from the date of this document
- (b) Assuming that the maximum number of Subscription Shares are subscribed pursuant to the Offer for Subscription:
  - (i) the expenses of the Offer for Subscription payable by the Company are estimated at approximately £835,000 (excluding VAT, where applicable);
  - (ii) the total gross proceeds of the Offer for Subscription will be £16,500,000; and
  - (iii) the total net proceeds of the Offer for Subscription will be £15,665,000.
- (c) In the opinion of the Directors the minimum amount which must be raised pursuant to the Offer for Subscription for the purposes set out in paragraph 21 of Schedule 1 to the POS Regulations is £3,705,000 which will be applied as follows:
  - (a) purchase of property - £nil;
  - (b) preliminary expenses - £835,000;
  - (c) repayment of any monies borrowed - £20,000;
  - (d) working capital - £2,850,000.
- (d) Save as disclosed in this document, the Directors are not aware of any exceptional factors which have influenced the activities of the Company.
- (e) Save as disclosed in this document, there has been no significant change in the financial or trading position of the Group or the development of the Group's business since 31 December 2004, being the date to which the latest audited accounts of the Group were made up.
- (f) The Company's accounting reference date is 31 December.
- (g) There are no patents or other intellectual property rights, licences or particular contracts on which the Group relies which are of fundamental importance to the Group's business.
- (h) Except as disclosed in this document, no person (excluding professional advisers named in this document and trade suppliers) has received, directly or indirectly, from the Company within the twelve months preceding the date of this document or has entered into contractual arrangements to receive, directly or indirectly from the Company on or after Admission, any fees, benefits or securities in the Company totalling or with a value of (as the case may be) £10,000 or more (in the case of securities calculated by reference to the IPO Subscription Price).
- (i) There are no arrangements in place to pay commissions to any party in consideration of their agreeing to subscribe or their procuring or agreeing to procure subscribers for Ordinary Shares.



#### **10. Consents**

- (a) Moore Stephens has given and has not withdrawn its written consent to the issue of this document with the inclusion of its reports in Part III and the references thereto and to their name in the form and context in which such reports and references are included.
- (b) Deloitte & Touche LLP has given and has not withdrawn its written consent to the issue of this document with the references to its name in the form and context in which such references are included.

Copies of this document will be available free of charge at the offices of Hunton & Williams, Fleetway House, 25 Farringdon Street, London EC4A 4AB until the end of the period during which the Offer for Subscription remains open.

Dated: 18 May 2005

## YOUR APPLICATION

<b>A.</b>	<b>Total number of Ordinary Shares:</b>	<b>Total subscription price:</b>  £
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consisting of:

<b>B.</b>	<b>Number of Ordinary Shares to be subscribed pre-IPO at a subscription price of 40 pence per Ordinary Share:</b>	<b>Total subscription price for Pre-IPO shares:</b>  £
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and

<b>C.</b>	<b>Number of Ordinary Shares to be subscribed on Admission at a subscription price of 125 pence per Ordinary Share:</b>	<b>Total subscription price for IPO shares:</b>  £
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**Note: Any application under the Offer for Subscription must be for both the Pre-IPO Shares and the IPO Shares in the ratio of one IPO Share for every one Pre-IPO Share so subscribed.**

Dear Sirs,

KP Renewables plc (the "Company") - Application for Ordinary Shares pursuant to the Offer for Subscription as described in the Prospectus.

I/We hereby confirm my/our irrevocable application to subscribe for the number of Ordinary Shares set out in Boxes B and C above on the terms and subject to the conditions set out in the Prospectus and in this Application Form.

I/We hereby confirm our agreement in all respects to the other terms of the Prospectus.

I/We give the warranties, representations, acknowledgements and undertakings in the terms set out in this Application Form.

I/We authorise and request you to deliver to us at my/our risk a definitive share certificate in accordance with the instructions given overleaf

Yours faithfully,

Signed..... Date .....

Name ..... Position.....

**This form should be completed and faxed to the Company's solicitors, Hunton & Williams marked for the attention of Peter Kavanagh (fax no. 020 7246 5772) by no later than 3.00 p.m. on 8 June 2005 and subsequently sent by post or by hand to Peter Kavanagh at Hunton & Williams, Fleetway House, 25 Farringdon Street, London EC4A 4AB.**

By completing this Application Form, you will be deemed to represent, warrant, undertake and acknowledge that:

- (a) you are entitled to subscribe for Ordinary Shares under the laws of all relevant jurisdictions which apply to you and that you have fully observed such laws and obtained all guarantees and other consents which may be required thereunder and complied with all necessary formalities;
- (b) in accepting your subscription and subscription monies for Ordinary Shares neither the Company nor its solicitors are breaching any provision of the Money Laundering Regulations 2003, the Anti-terrorism, Crime and Security Act 2001 or the Proceeds of Crime Act 2002 and that you have complied fully with any obligations which may apply to you under the Money Laundering Regulations 2003;
- (c) you have read the Prospectus and Application Form in their entirety;
- (d) you are acting as principal and for no other person and your application will not give any other person a contractual right to require the issue to him by the Company of any Ordinary Shares; and
- (e) the only information upon which you have relied in committing yourself to subscribe for Ordinary Shares is that contained in the Prospectus and the Application Form.

If any of the above representations, warranties, undertakings and acknowledgments shall not be true and accurate at any time prior to the issue of Ordinary Shares to you, you will give immediate notice of such fact to the Company specifying in what respect they are not accurate.

By completing this Application Form you agree to indemnify the Company and its officers, directors, employees and agents from and against any and all loss, damage, liability, expense (including legal fees) due to or arising out of the inaccuracy of any of the above representations, warranties, undertakings and acknowledgments or breach of any other provision of this Application Form.

By completing this Application Form you agree not to transfer or assign your rights under this Application Form or any interest therein. Any such transfer or assignment shall be void unless approved in writing by the Company (which approval shall not be unreasonably withheld).

By completing this Application Form you agree that you may not cancel, terminate or revoke your commitment under the terms of this Application Form and that such commitment shall survive your death or incapacity and shall be binding on your heirs, personal representatives, successors and assigns.

The terms of this Application Form shall be governed by, and construed in accordance with English Law, and in relation to any action or proceedings to enforce the terms of this Application Form, or arising out of or in connection with the same ("Proceedings"), you and the Company shall submit to the exclusive jurisdiction of the English Courts and waive any objection to Proceedings in such courts on the grounds of venue or on the grounds that the Proceedings have been brought in an inconvenient forum.

## APPLICATION FORM

**Applicants are strongly recommended to read and consider the contents of the prospectus to which this Application Form is attached (the "Prospectus") prior to completing this Application Form. In particular you should read the terms and conditions of the Offer for Subscription set out in Part IV of the Prospectus. Unless the context otherwise requires, terms defined in the Prospectus shall have the same meaning herein.**

In order to complete your application, you must complete this Application Form and return it in accordance with the instructions set out on page 3 of this form so that it is received by the Company's solicitors no later than 3.00 p.m. on 8 June 2005. Application Forms received after that time will not be valid, unless the Company agrees otherwise.

Payment of the subscription monies due in respect of your application must be made in accordance with this Application Form. Interest is chargeable and will accrue daily on all outstanding amounts due from you after the due date at the rate of 5 percentage points above prevailing LIBOR.

The subscription monies due in respect of the Pre-IPO Shares and the IPO Shares must be paid by cheque in favour of Hunton & Williams, the Company's solicitors, (which cheque should be drawn on a UK clearing bank and should accompany your application) or by wire transfer to the following account, which is the client account of the Company's solicitors, within 3 business days of completion of this Application Form:

Barclays Bank PLC  
Sort code: 20-00-00  
Account number: 60876089  
Account name: Hunton & Williams Sterling Client Account

Hunton & Williams will hold any subscription monies paid to their client account in respect of the IPO Shares pending Admission.

Definitive share certificates in respect of the Pre-IPO Shares are expected to be despatched to you by 22 June 2005.

Definitive share certificates in respect of the IPO Shares are expected to be despatched to you within 7 days of Admission.



## REGISTRATION AND DELIVERY

PLEASE COMPLETE IN BLOCK CAPITALS

### 1. CONTACT NAME

Contact name, address, telephone and fax number and email with regard to your completed Application Form:

Name: .....

Contact Name: .....

Address: .....

.....Post code:.....

Telephone No: .....

Fax No: .....

Email .....

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### 2. REGISTRATION DETAILS

Name and address in which Ordinary Shares are to be registered:

Registration Name: .....

Address: .....

.....Post code:.....

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### 3. DELIVERY INSTRUCTION FOR SHARE CERTIFICATES

(if different to above):

Name (in full): .....

Address: .....

.....Post code:.....

For the attention of: .....