THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about the contents of this document, you should consult an independent financial adviser authorised under the Financial Services and Markets Act 2000 who specialises in advising on the acquisition of shares and other securities.

This document comprises an admission document for the purposes of the AIM Rules. This document does not constitute a prospectus and a copy has not been delivered to the UK Listing Authority under regulation 3.2 of the Prospectus Rules Instrument 2005. Application has been made for the whole of the ordinary share capital of Zirax, issued and to be issued pursuant to the Placing, to be admitted to trading on AIM. It is expected that Admission will become effective and that trading in the Ordinary Shares will commence on AIM on 16 December 2005.

AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to larger or more established companies. AIM securities are not admitted to the Official List of the UK Listing Authority. A prospective investor should be aware of the potential risks in investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent professional adviser. The rules of AIM are less demanding than those of the Official List and it is emphasised that no application is being made for admission of the Ordinary Shares to the Official List. London Stock Exchange has not itself examined or approved the contents of this document. The Ordinary Shares are not dealt on any other recognised investment exchange and no other such applications have been made.

The Ordinary Shares have not been, and will not be, registered under the United States Securities Act 1933, as amended, or under the securities legislation of any state of the United States of America, Australia, Canada, Japan or the Republic of Ireland. Accordingly, subject to certain exceptions, the Ordinary Shares may not, directly or indirectly, be offered or sold within the United States of America, Australia, Canada, South Africa, Japan or the Republic of Ireland or to or for the account or benefit of any national, resident or citizen of Australia, Canada, South Africa, Japan or the Republic of Ireland or any person located in the United States of America. This document does not constitute an offer, or the solicitation of an offer to subscribe or buy, any of the Ordinary Shares to any person in any jurisdiction to whom it is unlawful to make such offer or solicitation in such jurisdiction.

The whole text of this document should be read. The attention of investors is drawn, in particular, to Part II of this document entitled "Risk Factors".

Zirax plc

(Incorporated and registered in England and Wales under the Companies Act 1985 with registered number 5533825)

ADMISSION TO TRADING ON THE AIM MARKET

and

PLACING OF 51,696,429 ORDINARY SHARES AT 15p PER SHARE

by

Nominated Adviser
Westhouse Securities LLP

Broker
Metropol (UK) Limited

The Placing is conditional, *inter alia*, on Admission taking place on or before 16 December 2005 (or such later date as Zirax, Westhouse and Metropol may agree but, in any event, not later than 12 January 2006). The Placing Shares will, following allotment and issue, rank in full for all dividends or other distributions hereafter declared, made or paid on the ordinary share capital of Zirax and will rank *pari passu* in all other respects with all other Ordinary Shares which will be in issue on Admission.

The Directors, whose names appear on page 4 of this document, both collectively and individually, accept responsibility for the information contained in this document and for compliance with the AIM Rules. To the best of the knowledge of the Directors, the information contained in this document is in accordance with the facts and contains no omission likely to affect the import of such information.

Westhouse, which is regulated by the FSA in the UK, is the Group's Nominated Adviser and placing agent and is acting exclusively for the Group in relation to the Placing and Admission for the purposes of the AIM Rules. The responsibilities of Westhouse as Nominated Adviser, are owed solely to the London Stock Exchange and are not owed to the Group or any Director or to any other person, whether in respect of any decision to acquire Placing Shares in reliance on any part of this document or otherwise. Metropol which is authorised and regulated by the FSA in the UK, is the Group's Broker for the purposes of the AIM Rules. Westhouse and Metropol are not acting for, and will not be responsible to any persons other than the Group for providing the protections afforded to customers of Westhouse and Metropol or for providing advice in relation to the contents of this document, the Placing, the application for Admission or other arrangements described in this document. No representation or warranty, express or implied, is made by Westhouse or Metropol as to the contents of this document (without limiting the statutory rights of any person to whom this document is issued) and neither Westhouse nor Metropol has authorised any part of this document for the purposes of the Prospectus Rules. No liability is accepted by Westhouse or Metropol for the accuracy of any information or opinions contained in, or for the omission of any material information from, this document for which the Group and its Directors are solely responsible.

Westhouse is a trading name of Westhouse Securities LLP, a member of the London Stock Exchange and regulated by The Financial Services Authority, a subsidiary of Kredietbank Luxembourg and part of the K.B.C. Group.

Copies of this document, which is dated 12 December 2005, will be available free of charge to the public during normal working hours on any weekday (except Saturdays and public holidays) from the registered office of the Group and from the offices of Westhouse, Clements House, 14-18 Gresham Street, London EC2V 7NN from the date of this document for not less than one month from Admission.

CONTENTS

PLACING STATISTICS

Placing Price (per New Ordinary Share)	15p
Number of New Ordinary Shares being issued	51,696,429
Number of Ordinary Shares in issue following the Placing	172,321,429
Market capitalisation of the Group at the Placing Price (following the Placing)	£25,848,000
Gross proceeds to be raised by the Group in the Placing	£7,754,464
Estimated net proceeds of the Placing receivable by the Group	£6,304,464

EXPECTED TIMETABLE OF PRINCIPAL EVENTS

	2005
Admission and commencement of dealings	16 December
CREST accounts credited	16 December
Despatch of definitive share certificates (where applicable)	not later than 23 December

DIRECTORS, SECRETARY AND ADVISERS

Directors	Sir James Michael Yorrick Oliver, *Non-Executive Chairman* Valery Yurievich Andosov, *Chief Executive Officer* Mikhail Vladimirovich Baranov, *Non-Executive Director* Mikhail Leonidovich Petrushin, *Chief Financial Officer* David Thomas Wood, *Non-Executive Director*
Registered Office	51 Eastcheap London EC3M 1JP
Principal place of business of the Group following Admission	Office 303, Ap 19A ul. Kuusinena Moscow Telephone number: +007 095 792 4719
Company Secretary	Mikhail Petrushin
Nominated Adviser to the Group	Westhouse Securities LLP Clements House 14-18 Gresham Street London EC2V 7NN
Broker to the Group	Metropol (UK) Limited Princes House 38 Jermyn Street London SW1Y 6DN
Placing Agent	Westhouse Securities LLP (as above)
Solicitors to the Group	Clyde & Co 51 Eastcheap London EC3M 1JP
Solicitors to the Nominated Adviser and Broker	Faegre & Benson LLP 7 Pilgrim Street London EC4V 6LB
Auditors and Reporting Accountants	PricewaterhouseCoopers LLP 1 Embankment Place London WC2N 6RH Member of the Institute of Chartered Accountants in England and Wales
Registrars	Computershare Investor Services plc Corporate Actions PO Box 859 The Pavilions Bridgwater Road Bristol BS9 1XZ

KEY INFORMATION

The following is derived from, and should be read in conjunction with, the full text of this document. Prospective investors should read the whole document and not just rely on key information set out below, in particular, attention is drawn to Part II of this document, which is entitled "Risk Factors".

Introduction

Zirax is the UK holding company of Global-Kaustik, a Russian company focused on the research and development, production, marketing and sale of calcium chloride based speciality chemicals. The Company's activities are focused on two products: calcium chloride and calcium chloride modified natrium.

Key strengths

The Directors believe that the Group has established a strong market position in the de-icing and oilfield process chemicals sectors both of which they consider to be sectors with strong growth potential. The Directors have identified the following as the Group's key strengths:

- the Company has grown rapidly in a market which, in the Directors' opinion, has high barriers to new entrants as well as strict product control requirements;
- the Group produces high performance products;
- the Company has developed patented production technology;
- the Company's geographical location is well placed to supply the strategic oil and gas industry markets of the North Sea, the CIS, North and West Africa and the Middle East;
- the Company's manufacturing plants are close to the Svetloyarskoye deposit of sodium salt, which ensures the availability of a key raw material;
- the Company has entered into a long-term contract with Kaustik to secure the supply of raw materials, utilities and other services at pre-determined prices;
- the Company's location at the Chemical Park provides it with the benefit of proximity to local support services and infrastructure;
- the market for the Group's products is growing and forecast to continue to grow for the foreseeable future;
- the management team of the Group has a proven track-record in the industry; and
- the Company has in place cost-effective research and development services and facilities through relationships with a number of research institutions.

Objectives and Strategy

The Group's aim is to strengthen its leading position, particularly in the oil and gas sector. Following Admission, the Group's objective is to grow the business by expanding its production facilities in Russia, developing production facilities in the European Union in collaboration with other industry participants, developing new products and increasing sales in its existing markets. The Directors believe that the Group can increase its market share by carefully planned investment projects in a number of sectors. There is a limited supply of calcium chloride pellets in Russia and elsewhere in the world. Due to the Company's cost and operational efficiencies, low fixed costs of production and its favourable location, the Company is well positioned to respond to increasing demand for its products from the global oil and gas field chemicals and other markets.

The Company plans to grow organically by developing its existing production facility and by expanding its business geographically. The Company plans to increase the proportion of its revenue generated by sales to the oil and gas and energy sectors and to enter into various collaborations with leading international chemical companies.

Current trading and prospects

The Company's revenues for the nine months ended 30 September 2005 were US$14,970,000. During this time the Company has experienced capacity constrained growth. Much of this revenue has been from the Company's IceMelt™ and CleanCity™ products.

In the future, the Directors believe that a main revenue driver will be by supplying its PelletOil™ branded calcium chloride products to the oilfield process chemicals industry. The Directors expect, that with the expansion of production capabilities of the Volgograd facility and by establishing strategic relationships with large chemicals companies within the European Union, the Company will be well placed to meet increased demand to all sectors particularly oilfield chemicals.

Use of proceeds

The Group is planning to use approximately US$3.6 million of the proceeds of the Placing to complete the refurbishment of, and to expand, the existing production facilities in Volgograd by the end of 2006. This will allow the Company to produce up to 85,000 MT per annum of calcium chloride pellets, reducing current production costs.

The remainder of the proceeds of the Placing will be used to repay a bank facility of US$1.8 million and to finance the operating expenses resulting from additional marketing and sales activity and facilitate the recruitment of more employees. The Company is actively pursuing other opportunities which it may fund out of any remaining proceeds of the Placing.

DEFINITIONS

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

"Act"	the Companies Act 1985 (as amended)
"Admission"	the admission of the Existing Ordinary Shares and the New Ordinary Shares to trading on AIM becoming effective in accordance with Rule 6 of the AIM Rules
"AIM"	the AIM Market owned and operated by the London Stock Exchange
"AIM Rules"	the rules published by the London Stock Exchange governing admission to, and the operation of, AIM
"Articles"	the articles of association of Zirax
"Board" or "Directors"	the directors of Zirax, whose names are set out on pages 18 and 19 of this document
"$CaCl_2$"	calcium chloride
"Chemical Park"	an area of 117 hectares comprising various chemical plants, factories and other ancillary units located in Volgograd, Russia
"CleanCity™"	a trademark owned by the Company and the brand name for high concentration calcium chloride pellets which are used for de-icing purposes
"Combined Code"	the code of best practice entitled the "Combined Code on Corporate Governance" published by the Financial Reporting Council
"CIS"	Commonwealth of Independent States
"CREST"	the electronic paperless transfer and settlement system to facilitate the transfer of title of shares in uncertificated form operated by CRESTCO Limited
"Directors"	Sir Michael Oliver, Valery Andosov, Mikhail Baranov, Mikhail Petrushin and David Wood
"Existing Ordinary Shares"	the 120,625,000 Ordinary Shares in issue as at the date of this document
"Erith"	Erith Group Ltd, a company incorporated in the British Virgin Islands (registration number 587367) which is beneficially owned as to 50 per cent. by each of Mikhail Baranov and Eldor Azizov, and which immediately prior to the Placing holds 85 per cent. of the issued Ordinary Shares of Zirax
"FSA"	the Financial Services Authority of the United Kingdom
"FSMA"	the Financial Services and Markets Act 2000
"FY"	financial year
"FP2002"	the period from 7 February 2002 to 31 December 2002

"FP2005"	the nine months ended 30 September 2005
"Global-Kaustik" or "Company"	OOO Global-Kaustik, a company incorporated in the Russian Federation (company number 1023404358053) which is the wholly owned operating subsidiary of Zirax
"Group"	Zirax and Global-Kaustik
"IceMelt™"	a trademark owned by the Company and the brand name under which the Company's product, calcium chloride modified natrium, is marketed and supplied for de-icing purposes
"IP Rights"	all patents, registered designs and design rights, trade marks, rights in domain names, copyrights, data base rights, trade secrets, confidential information and other proprietary rights, including know-how and other technical information
"Kaustik"	OAO Kaustik a company incorporated in Russia which maufactures diversified chemicals
"London Stock Exchange"	the London Stock Exchange plc
"Metropol"	Metropol (UK) Limited, the broker to Zirax
"MT"	metric ton
"New Ordinary Shares"	the Ordinary Shares to be issued by Zirax pursuant to the Placing
"Official List"	the official list of the UK Listing Authority
"Ordinary Shares"	ordinary shares of 1 penny nominal value each in the capital of Zirax
"Panel"	the Panel on Takeovers and Mergers
"PelletOil™"	the Company's brand name and trademark under which calcium chloride pellets are sold to the oil and gas industry
"Placing"	the conditional placing by Metropol (and Westhouse, as Placing agents for Zirax), of the Placing Shares at the Placing Price pursuant to the Placing Agreement
"Placing Agreement"	the conditional agreement dated 12 December 2005 between Zirax (1) the Directors (2) Metropol (3) and Westhouse (4) relating to the Placing, further details of which are set out in paragraph 11.3 of Part V of this document
"Placing Price"	15 pence per Placing Share
"Placing Shares"	the New Ordinary Shares
"Prospectus Rules"	the Prospectus Rules published by the Financial Services Authority
"RUB"	Roubles, the official currency of the Russian Federation
"R&D"	research and development
"Senior Management"	Sergey Mizitov, Elena Matveenko, Nikolai Vorobjev and Vladimir Mazlin

"Shareholders"	holders of Ordinary Shares from time to time
"UK"	United Kingdom
"UK Listing Authority"	the FSA, acting in its capacity as the competent authority for the purposes of FSMA
"US"	United States of America
"US$"	US dollars, the official currency of the US
"Westhouse"	Westhouse Securities LLP, the nominated adviser to Zirax
"Zirax"	Zirax plc, a company incorporated in England (registration number 5533825) and for the time being having its registered office at 51 Eastcheap, London EC3M 1JP

Exchange Rate

At the close of business on 8 December 2005, the mid-market rate of exchange as determined by the Central Bank of Russian Federation was £1 = RUB 50.64. Such rate has been used in this document unless otherwise stated.

PART I

INFORMATION ON THE GROUP

1. Introduction

Zirax is the UK holding company of Global-Kaustik, a Russian company focused on the research and development, production, marketing and sale of calcium chloride based speciality chemicals. The Company's activities are focused on two products: calcium chloride and calcium chloride modified natrium.

Although calcium chloride has a large number of uses, the three applications for which Global-Kaustik currently sells its products are:

- an oilfield processing chemical sold under the PelletOil™ brand;
- a high performance de-icing agent, sold under the IceMelt™ and CleanCity™ brands and Benick Brands' own label in the US; and
- other industrial applications.

The Company plans to grow organically by developing its existing production facility in Volgograd as well as building a new IceMelt™ production facility in Russia and expanding its business geographically through increasing its marketing efforts across Europe and North America. The Company plans to increase the proportion of its revenue generated by sales to the oil and gas and energy sectors and to enter into various collaborations with leading international chemical companies.

The Company's products also have applications in the food and water treatment markets. Global-Kaustik is in the process of developing a product for this sector which will be marketed under the FudiX™ brand in 2006.

2. History

The Company's production facilities are located in the Chemical Park in Volgograd. Calcium chloride production commenced at the Chemical Park in 2001, when Kaustik constructed the first plant with a capacity of 30,000 MT per annum of calcium chloride pellets. The Company was incorporated in February 2002 as a joint venture between US-based Global Speciality Chemicals LLC ("GSC") and Kaustik for the sale and marketing of calcium chloride pellets on the global market.

In 2002, the Company invested in the construction of a second calcium chloride facility at the Chemical Park. Construction of the IceMelt™ plant commenced in 2002 and the plant began production in the second half of 2003. Since the Company's inception its operations have been closely associated with those of Kaustik. Although the Company has at all times owned the calcium chloride facility and IceMelt™ plant, management and operation of the plant was outsourced to Kaustik as the Company did not until recently have the necessary licences to operate the facility. The Company was also supplied with the majority of its raw materials, energy and labour by Kaustik.

In 2004, the Company commenced a restructuring of its operations. This restructuring involved the purchase of assets and the transfer of employees from Kaustik and the formalisation of supply contracts between the two companies. Although the Company obtained the licence to operate the facility in September 2005, it has continued to outsource IceMelt™ production to Kaustik as the production line is located in a factory in which Kaustik carries out other manufacturing activities. A long-term supply framework agreement was signed on 1 September 2005 for the provision of hydrochloric acid, heat, steam, maintenance and other services by Kaustik to the Company.

Zirax was incorporated in England on 11 August 2005 and entered into an agreement to acquire the entire share capital of Global-Kaustik on 28 October 2005 which completed on 15 November 2005. Zirax intends to establish a UK office and employ a UK-based Finance Director as soon as is practicable following Admission.

3. Key strengths

The Directors believe that the Group has established a strong market position in the de-icing and oilfield process chemicals sectors both of which they consider to be sectors with strong growth potential. The Directors have identified the following as the Group's key strengths:

- the Company has grown rapidly in a market which, in the Directors' opinion, has high barriers to new entrants as well as strict product control requirements;
- the Group produces high performance products;
- the Company has developed patented production technology;
- the Company's geographical location is well placed to supply the strategic oil and gas industry markets of the North Sea, the CIS, North and West Africa and the Middle East;
- the Company's manufacturing plants are close to the Svetloyarskoye deposit of sodium salt, which ensures the availability of a key raw material;
- the Company has entered into a long-term contract with Kaustik to secure the supply of raw materials, utilities and other services at pre-determined prices;
- the Company's location at the Chemical Park provides it with the benefit of proximity to local support services and infrastructure;
- the market for the Group's products is growing and forecast to continue to grow for the foreseeable future;
- the management team of the Group has a proven track-record in the industry; and
- the Company has in place cost-effective research and development services and facilities through relationships with a number of research institutions.

4. Objectives and strategy

The Group's aim is to strengthen its leading position, particularly in the oil and gas sector. Following Admission, the Group's objective is to grow the business by expanding its production facilities in Russia, developing production facilities in the European Union in collaboration with other industry participants, developing new products and increasing sales in its existing markets.

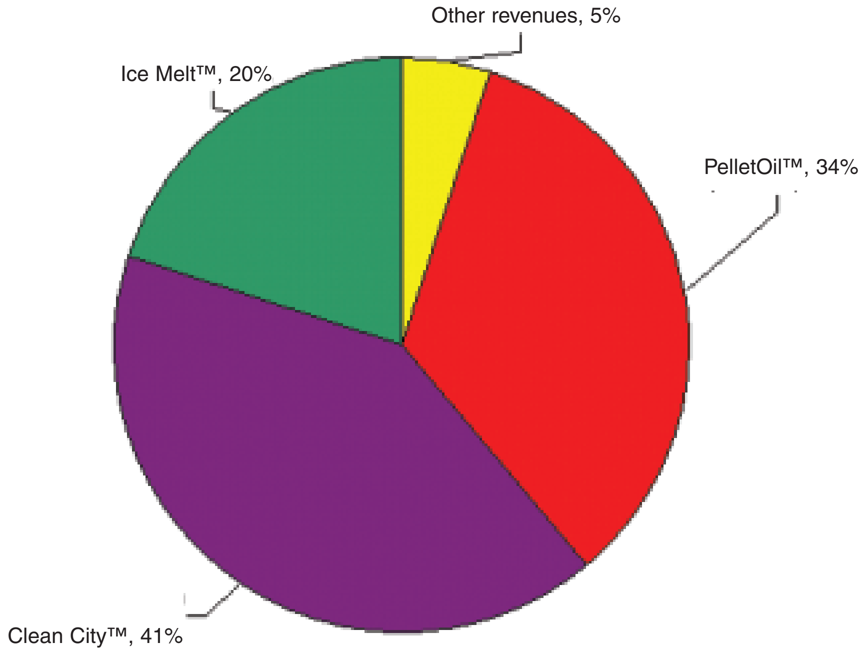
The Directors believe that the Group can increase its market share by carefully planned investment projects in a number of sectors. There is a limited supply of calcium chloride pellets in Russia and elsewhere in the world. Due to the Company's cost and operational efficiencies, low fixed costs of production and its favourable location, the Company is well positioned to respond to increasing demand for its products from the global oilfield process chemicals and other markets.

5. Principal activities and markets

The Group's principal activity is the production, marketing and sale of calcium chloride based speciality chemicals for various oil and gas industry uses and de-icing purposes. During the course of 2006 the Company intends to commence sales of food-grade quality calcium chloride, for use in the food processing industry and for water treatment.

A breakdown of the Company's FY2004 revenues is provided in the chart below:

Breakdown of the Group's FY2004 revenues



In FY2004 34 per cent. of the Group's sales were to the oil and gas industry, with the majority of the remaining sales being of de-icing chemicals. There is expected to be an increased demand for oilfield chemicals in order to improve the efficiency of oil and gas extraction which, in the Directors' opinion, will in due course result in this sector becoming the largest market for the Group's products. Products sold in the industrial chemicals sector form a relatively small part of the Company's revenues are included in the chart under "other revenues" and consist of sales to various Russian construction companies. The Directors do not envisage any growth in sales to the industrial chemicals sector.

5.1 **Oilfield service industry**

The Company has developed its own brand of calcium chloride pellets, PelletOil™, with a calcium chloride content of 94-98 per cent. which is used as an oilfield process chemical in the oilfield sector. Products with such a high concentration of calcium chloride are considered to be premium products in the oilfield process chemicals market.

Use of calcium chloride pellets in the oil and gas industry

Calcium chloride is used in several applications for new or existing wells to improve their efficiency and production. Such applications include:

Drilling muds

Most wells involve rotary drilling, and drilling muds are used to cool and lubricate the drill bit and remove cuttings from the hole. The drilling mud must have enough density to overcome formation pressures and keep oil, gas and water in place. Drilling muds are either water- or oil-based. Calcium chloride is added to the oil-based drilling muds used in deeper wells because it is inert to clays and shales and resists solidification under typical deep well conditions. The use of calcium chloride allows for longer bit life and faster drilling rates by reducing drilling times by up to 25 per cent.

Completion fluids

A completion fluid is used just before the producing formation (oil or gas reservoir) is reached in order to flush the hole clean of solids so that the casing can be cemented into place.

Calcium chloride is a component of the completion fluids because its density range (1.2 to 1.4kg/l) is compatible with most wells in use. It is also relatively non-corrosive and stable at the highest bottom-hole temperatures.

Concrete accelerator

The casing is installed after the hole is cleaned with a completion fluid. A pipe that runs from the reservoir to the surface is usually concreted in place in order to ensure a pressure tight connection to the oil and gas reservoir. The concrete also prevents caving, confines production to the well bore and sites to control well pressure. A concentration of 2 per cent. to 3 per cent. calcium chloride is often added as a "concrete accelerator" because it reduces the time for the concrete to set.

Packer fluids

Once the casing is cemented in place, a smaller diameter pipe (the "tubing") is inserted in the casing. Tubing makes the flow of oil or gas more efficient and can be pulled out and replaced if blockages develop or damage occurs. Tubing is used with a packer that keeps well fluids away from the casing in order to minimise casing corrosion. Calcium chloride is used for the clear brines that are often used in packing the annular space between the tubing and casing. It also helps to maintain the pressure level because it has sufficient density to offset the pressure on the casing and contains no solids.

Workover fluids

Wells are flushed free of solids with a workover fluid (usually a clear brine) before they are repaired or before the re-commissioning of a well that has been idle or suspended. Calcium chloride is a component for workover fluids because it has an appropriate density for this application.

Bit lubricant

Calcium chloride is used to lubricate bits when hard formations are encountered in the presence of soft water. Used with potassium stearate, it forms a calcium stearate precipitate that lubricates the bit and prevents clay formations and flocculating.

Enhanced oil recovery ("EOR")

EOR methods are achieved through the use of heat, gases and chemicals, including calcium chloride, thereby potentially increasing the production of known oilfields. These methods have been developed in an effort to tap into the 40 to 80 per cent. of non-recovered oil that may remain in a reservoir as a result of conventional recovery methods. Even a well engineered waterflood, or secondary reservoir, can leave more than one third of a reservoir's oil untapped. The economical viability of using EOR methods increases as the price of crude oil rises. It is forecast that the global market for EOR applications will increase by 22 per cent. per annum to 2007. Calcium chloride is used in chemical flooding, one of three major types of EOR.

The market for oilfield process chemicals

The exploration and development of new oil and natural gas wells and the need for more efficient production in the existing ones have resulted in an increase in demand for oilfield process chemicals. Demand for oilfield process chemicals within the oil and gas services segment is expected to increase at a rate of 6.6 per cent. per annum to US$2.3 billion by 2007.

Customers in the oilfield service sector impose strict quality requirements on any supplier of speciality chemicals, particularly if such chemicals are purchased for the purpose of using them in the drilling and commissioning of the oil wells. The Directors believe that, in addition to producing high quality products, if the Group wishes to increase its market share in this sector it must be able to:

- offer high performance products;
- service its customers on a global basis;
- develop a respected brand; and
- manage its operating costs efficiently.

The Directors believe that PelletOil™ is a high quality and high performance product as it contains almost none of the impurities occurring in low-grade $CaCl_2$ products which are liable to block drilling equipment. PelletOil™ also dissolves faster than other widely available granulated and/or flaked calcium chloride product.

The Company's infrastructure and logistics arrangements allow cost and time-effective deliveries to its strategic markets, including the North Sea, the CIS, North and West-Africa and the Middle East. The Directors believe that the Company has cost advantages over its competitors as a result of relying on its own know-how and other proprietary processes, comparatively low cost natural gas and electricity and raw material supply secured by long-term contractual arrangements with reliable suppliers.

Oil and gas customers

PelletOil™ is supplied to the oilfield market through oilfield service companies. These oilfield service companies provide multiple products and formulate their own products to supply oil companies throughout the world.

Within the oil and gas industry there are generally considered to be three tiers of oilfield service companies. The top tier includes international service companies with employees throughout the world providing specialised services. These companies include, amongst others, Halliburton, MI Drilling (a wholly-owned subsidiary of Schlumberger) and Baker Hughes. The second tier of oilfield service companies consists of international distributors operating globally. The third tier of oilfield service companies are regional oilfield service companies. The oilfield service companies in the top tier and the second tier have shown interest in multiple sources of calcium chloride to service their customers worldwide. These service companies will tend to source material for their African, Middle Eastern, Russian, CIS and European markets from suppliers outside North America. The Company is capable of supplying its products to service companies on a global scale.

The Group has developed strong relations with partners from the top tier, such as Halliburton and Baker Hughes. The Company also has strong relations with Cal-Chlor Corporation Inc ("Cal-Chlor") which is the largest supplier to MI Drilling and a major distributor for Dow Chemical. Halliburton sources its material from the Company for the Eastern hemisphere.

In addition to these international customers the Company is a market leader in Russia and the CIS where it holds strong relations with regional oilfield service companies.

Future developments

The Directors believe that the market for the use of PelletOil™ in the EOR process will experience solid growth over the next ten years because diminishing oil reserves are leading to higher prices which in turn increases the importance of efficient drilling techniques in order to make previously non-viable reserves economically feasible.

In certain conditions there are no substitute products for calcium chloride within the energy industry. Calcium chloride pellets are a value added product; oil and gas companies prefer high strength pellets to any other form of calcium chloride.

5.2 The de-icing market and other products

Use of de-icing products

De-icing agents are widely used by public authorities as well as companies and private persons to clear snow and ice. The most commonly used de-icing mixture was historically a mixture of rock salt and sand but nowadays this is considered to be ineffective, non-economical and harmful to the environment. Whilst presently salt (sodium chloride) products are still widely used, it is acknowledged that prolonged use of salt is likely to be harmful to vegetation and corrosive to metal. New environmental legislation is also being introduced to restrict the use of lower performance de-icing products in a number of countries including Russia, Germany and the US. The Directors believe that increased environmental scrutiny from governments (together with customer demand for more effective and efficient de-icing products) presents an opportunity for the Company's products to capture a larger market share as salt will be replaced by more environmentally friendly products.

One of the advantages of CleanCity™ and IceMelt™ over other forms of calcium chloride is that they generate more heat than medium strength flakes or granules. The pellets also penetrate the ice faster than the flakes due to their shape and higher density, whereas flakes melt only the surface.

Consumers tend to take into account three environmental issues when choosing a de-icing agent: damage to vegetation; damage to road surfaces and the corrosion of vehicles. IceMelt™ and CleanCity™ perform better than other de-icing products in all these aspects because significantly smaller quantities of IceMelt™ or CleanCity™ pellets will achieve the same result as other products.

IceMelt™ is the Company's specially designed and patented high performance de-icing product which consists of two major ice melting products: calcium chloride pellets and food grade sodium chloride. IceMelt™ also contains a corrosion inhibitor which makes it particularly suited for use in municipal, commercial and retail applications.

The Market for de-icing agents

The customers of the Company's de-icing products are primarily local authorities and commercial enterprises.

Municipal customers

In Russia the municipal authorities of large metropolitan areas, such as Moscow and St. Petersburg, are under increasing pressure to improve public transportation including the state and maintenance of roads and pavements. As a result they spend an increasing amount of their budget on more effective de-icing products thereby reducing the number of patrols required to clean the roads in wintertime.

Moscow City Council spent over US$300 million in 2002-2003 to replace road salt with high performance de-icing products. Moscow's demand for high performance solid de-icing products in the winter of 2004-2005 was over 150,000 MT.

The Company aims to increase its share of the Russian market by offering products to its customers which will reduce:

- the cost of de-icing due to less product being needed to achieve the same result and reduced (if pre-wetted) waste because it "bounces and scatters";
- abrasive purchase and clean-up costs after usage because these anti-icing and de-icing products work at lower temperatures where previously abrasives had to be used;
- the necessary manpower, equipment and fuel costs as, due to the products' long lasting performance, less frequent patrols are required; and
- the cost to the public and to businesses by preventing injuries from accidents, vehicle damage and travel delays, all resulting in lost production time.

The vast majority of municipal service companies in Russia purchase de-icing products based on municipal tenders which are organised each year. The Company has won the tender invited by the Moscow Committee for Public Procurement for the third consecutive winter season. Following the winning of the tender the Company's customers include more than 30 companies all servicing municipal needs in Moscow.

Commercial and retail market

The Group plans to further develop, market and promote its de-icing products under its proprietary consumer product brands, IceMelt™ and Clean City™ for Russia, the Baltic States and Eastern Europe. The Company's products are distributed in North America by Benick Brands' under Benick Brands' own trademark, Vaporizer™. Benick Brands' distributes the Company's products to some of the biggest hardware retailers in the US and Canada, such as K-Mart and Home Depot.

Russian retail clients have been using IceMelt™ since 2003. Demand for the product has increased year on year as the Company has been providing competitively priced, high performance products in attractive and informative packaging.

The North American retail market is in need of an ice melter to fulfil the demand of those who are willing to pay a slightly higher price than the price of sodium chloride for a more effective product but cannot afford the more expensive calcium chloride pellet. The Company's current strategy is to position IceMelt™ as a reliable flagship product suitable to use at temperatures as low as minus 35 degrees centigrade and priced at the level between sodium chloride and other more expensive products. This product will compete with potassium chloride, calcium chloride flakes and blended products which all have lower performance parameters than IceMelt™. The Directors are focusing on increasing the market share of IceMelt™ in the North American market through distribution arrangements with Benick Brands by providing a product with a consistent quality performance.

5.3 Food additives and water treatment market

Food-grade calcium chloride is a versatile food additive which is widely accepted and used in the food industry. Food manufacturers use food-grade calcium chloride pellets in a wide variety of food processing applications, for example:

- in de-mineralising water treatment prior to re-mineralising for standardisation of flavour of beer, wine and soft drinks;
- as a coagulant in the manufacture of certain cheeses;
- in fermentation, canning and storage solutions; and
- as an additive to some animal feeds.

By mid-2006 the Group intends to start manufacturing and marketing calcium chloride pellets under the FudiX™ brand name for food and water treatment applications.

6. Competition

Although calcium chloride is widely available in medium-strength flake and in liquid format, calcium chloride pellets are produced by very few manufacturers globally of which the Company is one. It is however the Directors' intention to diversify the customer base of the Company's products so as to reduce the impact should a competitor gain a larger market share in any of the industry sectors in which calcium chloride is used.

6.1 The oil and gas industry market

The Directors believe that the Company's position within the oilfield service industry is supported by the Company's proprietary technological process, which is the result of long-term operations, various pilot runnings, laboratory tests and the accumulation of technical knowledge. Without such technology and process knowledge, the Directors believe that it would be difficult for a competitor to start similar production of calcium chloride pellets, with the same level of concentration (94-98 per cent.) on a sustainable basis without significant investment and know-how.

6.2 The de-icing agent market

Products which compete with IceMelt™ and CleanCity™ are mostly those manufactured by Tetra Technologies (which produces calcium chloride flakes at its facility in Finland), a number of Chinese suppliers of calcium chloride flakes and Russian domestic producers of blended ice-melters.

In 2004 over 85 per cent. of the Company's IceMelt™ product was sold to Moscow's state unitary enterprises. The largest customer was Koltseviye Magistrali ("Kolt"), the state enterprise responsible for de-icing the three main ring roads of Moscow. The Company's sales have been restricted by production capacity rather than demand and the Directors believe there is considerable scope for expansion within existing and new markets.

The Company also sells IceMelt™ through distributors in Russia and exports through sales to Benick Brands.

7. Production facilities

7.1 Production plant and equipment

The Company's manufacturing facility is located within the Chemical Park. The Company is one of the Chemical Park's several tenants. Its position within the Chemical Park provides the Company with a readily available source of raw materials, energy and transport combined with access to a well-developed local infrastructure and trained work force.

The Company's production facility comprises two calcium chloride plants, the IceMelt™ production facility (located within Kaustik's premises), external storage areas, offices and administrative buildings. Whilst the Company is looking to increase its production capabilities outside of Volgograd, the Directors believe that the Company can increase production at the Volgograd site by increasing efficiency and through expansion of the existing facility.

7.2 Production process

Calcium chloride solution is produced by adding hydrochloric acid to limestone (calcium carbonate). Liquid concentrations may vary from 32 per cent. to 37 per cent. depending on the process conditions. Prior to solidifying the liquid it is settled down in tanks to remove impurities. The unconverted liquid is filtered and recycled while solid waste is removed.

The Company produces calcium chloride pellets by using "Fluid Bed" drying technology. This process is based on the distribution of calcium chloride solution inside a fluid bed tower where round pellets are formed by absorbing the heat generated by burning natural gas. The pellets, when formed, are discharged automatically into an intermediate cooler and afterwards packaged in intermediate bulk containers (IBC) weighing 1 MT or smaller packaging if required according to customer requirements. The solidification process is based on one of the Company's IP Rights, operational know-how and equipment developed to produce high quality product at a competitive cost.

IceMelt™ is manufactured by mixing and then compacting calcium chloride pellets with other solid salts, primarily sodium chloride, before further adding some corrosion inhibitors in the production phase. The Company has proprietary IP Rights to the process of both the mixing and the compacting of the product. The final product is packaged according to the customer's specifications.

8. Suppliers

The two main materials used by the Company are hydrochloric acid and limestone. Both are readily available from a number of suppliers in Russia at a reasonable cost.

The Company has a long-term supply agreement with Kaustik, which is also the operator of the Chemical Park and an agreement with JSC Khimprom, a large chlor-alkali manufacturer in Volgograd for the supply of hydrochloric acid. The Company also has a number of alternative suppliers of hydrochloric acid including other petrochemical vendors. As part of the supply agreement the Company has entered into a long term pricing arrangement with Kaustik.

Substantial quantities of limestone are used for converting hydrochloric acid into calcium chloride. The Company purchases limestone from several different sources in the nearby regions.

Utilities (such as steam, hot and settled water and electricity) for the sustainable calcium chloride and IceMelt™ plant operation are sourced from Kaustik pursuant to a long-term agreement. Other services such as machinery maintenance, engineering, cleaning, transportation and security are also provided by Kaustik.

9. Research and development

The Company is continually developing new applications for its products. Mr Mazlin is head of research and development and it is his responsibility to formulate the Company's strategic R&D programme. Global-Kaustik also contracts with a number of research institutions. The Company's research and development in respect of de-icing materials is focused on making the products more efficient and effective with minimum impact on the environment. The Company has developed relationships with a number of institutions which provide it with cost effective R&D services.

10. Intellectual property

Whilst the protection of the Company's IP Rights and trade secrets is important to preserve its competitive edge in the market, the Directors do not believe that the Company is materially dependent upon its IP Rights as it would require a substantial length of time and considerable resources for competitors to independently develop similar expertise. However, it is the Company's policy to employ all reasonable legal means to protect its IP Rights, trade secrets and any other proprietary information.

In 2002 Global-Kaustik invented the process referred to as "Improved Snow and Ice-Melting Granules and Method for Preparing the Same" and has been at all times using this process. The patent relating to this invention was, however, registered on 27 July 2004 in the name of Global Speciality Chemicals Limited, a Hong Kong company related to Global Speciality Chemicals Inc which in turn at that time was a majority shareholder in the Company. This patent was assigned (and rights to claim in respect of the period between the registration and the assignment of the patent duly waived) to the Company on 13 September 2005 for a nominal amount and registration of the assignment has been applied for.

On 5 March 2005, Global-Kaustik applied for, and secured the priority rights for, the registration of the following two patents:

- "De-icing Preparation"; and
- "Method of Concentration of Solutions of Calcium Chloride".

The Company owns or has applied for the registration of the following trade marks:

PelletOil™	Oil and gas applications (11 August 2004)
Clean City™	High performance de-icing material (11 August 2004)
IceMelt™	High performance de-icing material (1 November 2004)
FudiX™	Food and water additive (11 August 2004)
"HKNM™"	Calcium Chloride Natrium Modified (Russian abbreviation) (6 April 2005)

It is the practice of the Company to enter into confidentiality agreements with its key employees, consultants and third parties to whom the Company discloses its confidential and proprietary information.

11. Board of Directors, senior management and employees

Board of Directors of Zirax

Sir Michael Oliver (Non-executive Chairman, aged 65)

Michael began his working life in South Africa before returning to London in 1970 and joining stockbrokers Kitcat & Aitken. He subsequently became a Partner of the firm and, after its merger with another company its Managing Director. City mergers in the 1990's saw Michael become Director of Lloyds Investment Management and subsequently in 1994 Director, Investment Funds, at Hill Samuel Asset Management (a wholly owned subsidiary of Lloyds TSB Group). Following the Scottish Widows' merger with Lloyds TSB in July 2000, Michael was appointed Director, Investment Funds, of the new Scottish Widows Investment Partnership a position which he held until 2001 when he retired from the Group.

He is currently Chairman of Goldstone Resources plc, Europa Oil & Gas plc and the Central & Eastern European Fund and is a director of two other investment companies. Michael is also an International Adviser to the Budapest Stock Exchange.

He was appointed as a Director of Zirax on 1 November 2005.

Mr Valery Andosov (Executive Director, Chief Executive Officer, aged 37)

Valery graduated from St. Petersburg Institute of Economics and Finance with a diploma in Finance in 1996 and St. Petersburg State University in 1998 with a degree in Engineering. He is currently undertaking an executive MBA programme at Stockholm School of Economics.

Valery was appointed as a General Director of Global-Kaustik in 2003. He has more than 10 years of business experience, including managing a large petrochemical company and Global Speciality Chemicals LLC, a global multi-million US$ sales speciality chemicals operation. He has a broad experience in international finance, trade and logistics, particularly in the field of chemicals and petrochemicals.

He was appointed as an executive Director of Zirax on 11 August 2005.

Mr Mikhail Baranov (Non-Executive Director, aged 42)

Mikhail began his career as a theoretical physicist in the Moscow State University Nuclear Physics Research Institute in Moscow in 1986, after graduating from Moscow State University with a diploma in physics. Later he worked in the semi-conductor research field and was employed by state-owned R&D centres.

He started his career in banking in 1993 when he was appointed as Deputy Managing Director of one of the commercial banks in Moscow. Having gained extensive experience in banking and trade finance, in 1997 he was appointed as Managing Director of Kapital Moskva Bank and later as Managing Director of Inkaro Bank in Moscow. Mikhail is also the non-executive chairman of Kaustik.

Mikhail has more than 13 years of business experience in banking and finance, having worked on a number of merger and acquisition and investment deals within the Russian and CIS chemical sector. One of his successful business transactions was the establishment of a joint venture between Nikos (a Russian chemical company) and the Solvay Group in Russia in 2003 for the purpose of producing rigid PVC compounds which were in great demand in the Russian market. Mikhail was appointed as a Director of Zirax on 11 August 2005.

Mr Mikhail Petrushin (Executive Finance Director, aged 29)

Mikhail graduated from Moscow State University of International Relations in 1999 with a degree in Economics & International Finance and went on to study at Tokyo International Christian University where he obtained a diploma in International Studies.

From 1998 to 2002 Mikhail worked for the Nissho Iwai Corporation as a Head of Chemical Machinery Division, where he successfully implemented several direct investments in Russia together with other Japanese chemical companies and Russian oil and gas majors, such as Gazprom, SIBUR and LUKOIL.

Mikhail is the Head of Business Development of Global-Kaustik and is responsible for the implementation of the Company's business development strategy. On 11 August 2005 he became the secretary of Zirax and on 1 November 2005 he was appointed as a Director.

Mikhail will serve as finance director on an interim basis pending appointment of a UK-based finance director as referred to in Section 2 of Part I of this document.

Mr David Wood (Non-Executive Director, Aged 56)

David holds an honours degree in chemical engineering and started his career as a project engineer with GKN Contractors Limited later taking the position of Project Manager for a number of international projects. Subsequently he moved on to work with various international engineering companies such as Davy McKee Limited (as an associate director of Business Development) Wimpey Engineering Limited (as a Project Director and Director of International Sales) before becoming the vice president of Corporate Finance at Bankers Trust Company where he was responsible for developing and managing the company's business in the chemicals sector. David then became one of the Commercial Vice Presidents of MW Kellogg Limited with special focus on developing opportunities in emerging economies (such as Poland, Albania, Yugoslavia and Romania) as well as other European countries (including Sweden, Italy and Norway).

Presently, David is working as an independent consultant to advise companies in relation to developing projects in the energy industry across Russia, China and North-West Europe.

David was appointed as a non-executive director of Zirax on 12 December 2005.

Senior Management of the Company

Valery Andosov and Mikhail Petrushin have also been directors of Global-Kaustik since July 2003 and March 2005, respectively. Valery is the General Director and Mikhail is the Vice-General Director of Global-Kaustik.

Mr Sergey Mizitov (Executive Director, aged 43)

Sergey graduated in 1986 from St. Petersburg Mining Engineering University with a degree in Engineering. He also obtained a degree in Economics from St. Petersburg Economics & Finance University in 1994. He began his career in chemicals in 1995 when he successfully managed Evroles LLC (St. Petersburg, Russia), a trading company engaged in international sales of speciality chemicals, pulp, paper and chemical commodities.

Sergey has been managing the Company's operations as an executive director in the City of Volgograd since 2002 and managed the sales on both the domestic (Russia and CIS) and overseas (Europe and Northern America) markets. He has more than 10 years' experience in the speciality chemicals business including international marketing, project finance and management of a production site.

Mrs Elena Matveenko (Financial Controller, aged 42)

Elena graduated from Novosibirsk Technical University in 1985 with a degree in Engineering. She went on to study at the Volgograd Trade and Economics University where she graduated in 1998 with a degree in Economics. In 1999 she qualified as a Chartered Accountant at the Institute of Professional Accountants of Russia. Elena has also been awarded the Certificate of the International Association of Book-Keepers which she obtained through the Open University Business School in the UK.

Elena is the Financial Controller of Global-Kaustik. She is responsible for managing the Company's cash flow, internal controls and accounts. She has broad experience in strategic management, business development, international accounting and finance. She began her career in 1995 as a chief accountant at Lensroyservice, a Russian construction company. Between 2000 and 2003 she worked as a chief accountant for SUN Interbrew, the Volgograd subsidiary of a Belgian company.

Mr Nikolai Vorobjev (Chief Operating Officer, aged 57)

Nikolai studied Chemical Process Engineering at Volgograd State University, graduating in 1974. He began his career in 1976 as production manager in Chlor-Vinyl State Enterprise (USSR), becoming the head of production in 1991. In 1991 he became the head of production at Kaustik, before becoming the calcium chloride plant manager in 1998. Nikolai joined Global-Kaustik in 2005 as head of production and chief operating officer.

Mr Vladimir Mazlin (Head of Research and Development, aged 66)

Vladimir holds a diploma in Inorganic and Mining Process Engineering from St. Petersburg State Mining University and a diploma from the Moscow State Secondary University for Mining Process Chemical Engineers. He began his career in 1962 in the Salt and Mining State Research Institute where he was initially a process design engineer and later a project manager. During his work in the Research Institute he was the project manager for several projects in the former Soviet Union related to potassium, magnesium and calcium brine extraction. Under his management several plants with multi-million ton capacity were built in the Russian Urals region, Belorussia, Bulgaria and the Ukraine.

12. Sales organisation

Global-Kaustik's products (both calcium chloride pellets and IceMelt™) are sold to the retail market at leading North American retailers, including the Home Depot, K-Mart and Lowe's Home Improvement Warehouse.

The Company markets its products in the following ways:

- the senior management deals directly with principal clients;
- municipal clients are serviced by a dedicated salesperson who has relationships with the municipal sector; and
- mid-and small-sized clients are serviced by Global-Kaustik's marketing department.

The Company sells to potential clients via direct marketing including (mail shots) and also participates in industry tradeshows and exhibitions.

13. Trading record

The table below summarises the trading results of the Company for the period from 7 February 2002 to 30 September 2005. The information has been extracted from the Historical Financial Information set out in Part III of this document.

	FP2002 *US$'000*	*FY2003* *US$'000*	*FY2004* *US$'000*	*FP2005* *US$'000*
Revenue	2,470	9,967	17,163	14,970
Cost of sales	(1,374)	(6,319)	(9,710)	(8,292)
Gross income	1,096	3,648	7,453	6,678
Distribution costs	(692)	(2,344)	(4,584)	(3,496)
General and administration expenses	(187)	(481)	(1,214)	(922)
Operating profit	217	823	1,655	2,260
Interest expense	(3)	(11)	(80)	(91)
Income before taxation	214	812	1,575	2,169
Taxation	(106)	(226)	(421)	(573)
Net income	108	586	1,154	1,596

There has been no significant change in the financial or trading position of the Group since 30 September 2005, the end of the last financial period for which interim financial information is included in this document.

14. Current trading and prospects

The Company's revenues for the nine months ended 30 September 2005 were US$14,970,000. During this time the Company has experienced capacity constrained growth. Much of this revenue has been from the Company's IceMelt™ and CleanCity™ products. In the future, the Directors believe that a main revenue driver will be the supply of its PelletOil™ branded calcium chloride products to the oilfield process chemicals industry. The Directors expect, that with the expansion of production capabilities of the Volgograd facility and by establishing strategic relationships with large chemical companies within the European Union, the Company will be well placed to meet increased demand to all sectors particularly oilfield chemicals.

15. Corporate governance

The Directors acknowledge the importance of the Combined Code and intend, following Admission, to comply with its principles so far as is practicable and appropriate given the size and constitution of the Board.

The Group also intends to comply with the principles of the Corporate Governance Guidelines for AIM Companies published by the Quoted Companies Alliance ("QCA") in 2005.

The Board has established an audit, compliance and monitoring committee and a remuneration committee. Zirax has appointed Sir Michael Oliver as its non-executive Chairman and Mr Wood as non-executive Director. Mr Wood will chair the audit committee and Sir Michael Oliver the remuneration committee.

The audit, nomination and compliance committee will receive and review reports from the management and the external auditors of the Group relating to the annual and interim accounts and the accounting and internal control systems of the Group. The audit, compliance and monitoring committee will have unrestricted access to the Group's external auditors.

The remuneration committee will set and review the scale and structure of the executive Directors' remuneration and the terms of their service contracts with due regard to the interests of the Shareholders. The remuneration and terms and conditions of appointment of the non-executive Directors will also be set by the remuneration committee. The remuneration committee will make recommendations to the Directors concerning the allocation of share options to employees. No Director is permitted to participate in discussions or decisions concerning his own remuneration.

Zirax has adopted a Model Code for dealing in Ordinary Shares by Directors and employees which is appropriate for an AIM quoted company.

16. City Code on Takeovers and Mergers

Rule 9 of the City Code on Takeovers and Mergers (the "City Code") stipulates, *inter alia*, that when a person acquires shares in a company which is subject to the City Code (such as Zirax) and such shares, when taken together with shares already held by him or acquired by persons acting in concert with him, carry 30 per cent. or more of the voting rights of the Company, that person would normally be required to make a general offer to all the remaining shareholders to acquire the balance of the equity share capital of that company (a "Mandatory Offer"). Similarly, when any person or persons acting in concert already hold shares carrying not less than 30 per cent. but no more than 50 per cent. of the voting rights of such company and further shares are acquired by any such persons, a Mandatory Offer will normally be required. Erith, Mr Baranov and Mr Azizov are regarded as acting together in concert for the purpose of the City Code (the "Concert Party").

Immediately, prior to the Placing, members of the Concert Party will hold 102,531,250 Ordinary Shares, representing 85 per cent. of the issued share capital of Zirax. Immediately, following the Placing, Erith's holding will reduce to approximately 59.5 per cent. of the issued share capital of Zirax.

The attention of the investors is drawn to the fact that following completion of the Placing, the members of the Concert Party will between them own more than 50 per cent. of Zirax's voting share capital and (for so long as they continue to be treated as acting in concert) may accordingly increase their aggregate shareholding, without incurring any further obligations under Rule 9 to make a Mandatory Offer, although individual members of the Concert Party will not be able to increase their percentage shareholding through a Rule 9 threshold without Panel consent.

17. Details of, and reasons for, the Placing

The Directors consider that Admission is an important step in the development of the Group that will raise its profile and provide flexibility in financing its future growth.

The net proceeds of the Placing are expected to be £6,304,464 after deduction of placing commission and expenses estimated at £1,450,000.

The ISIN (International Security Identification Number) of the Ordinary Shares is GB00B0T9VS23.

18. Use of proceeds

The Group is planning to use approximately US$3.6million of the proceeds of the Placing to complete the refurbishment of, and to expand, the existing production facilities in Volgograd by the end of 2006. This will allow the Company to produce up to approximately 85,000 MT per annum of calcium chloride pellets, reducing current production costs.

It is proposed that a further US$1.8 million of the proceeds will be used to repay the bank facility of Global-Kaustik's to GazpromBank which was drawn for the purposes of the purchase of manufacturing assets earlier in 2005 (further details of the facility arrangements are set out in paragraph 11.12 in Part V of this document).

The remainder of the proceeds of the Placing will be used to finance the increased operating expenses resulting from additional marketing and sales activity and facilitate the recruitment of more employees. The Company is actively pursuing other opportunities which it may fund out of the proceeds of the Placing.

19. Dividend policy

The Directors' intention is to re-invest funds into the Company until such time as they believe the payment of dividends to be appropriate. In reaching this decision the Directors will consider the availability of distributable reserves whilst maintaining an appropriate level of dividend cover and having regard to the need to retain sufficient funds to finance the development of the Group's activities.

20. Lock-in and Orderly Marketing Deed

Under the terms of a lock-in and orderly marketing deed, which are described more fully in paragraph 11.5 of Part V of this document, Erith and Mr Andosov have undertaken that, subject to certain exceptions, each of them will not sell or otherwise dispose of, or agree to dispose of, any of their respective interests in Ordinary Shares held immediately following Admission for a period of 12 months (the "Lock-in Period") without the consent of Westhouse and Metropol (such consent not to be unreasonably withheld) and only through Metropol. Erith and Mr Andosov have agreed for a further 12 months from the expiry of the Lock-in Period only to dispose of shares through Metropol following consultation with Westhouse and Metropol in such a manner as may be reasonably required by Metropol and Westhouse with a view to the maintenance of an orderly market in the Ordinary Shares.

In addition, each of Pennygold Trading Supplies, a company incorporated in the Republic of Ireland, and OOO Yugo-Vostok Promkapital, a company existing under the laws of the Russian Federation, which will hold more than 3 per cent. of the issued share capital of Zirax immediately following Admission have undertaken for a period of 12 months only to dispose of shares through Metropol following consultation with Westhouse and Metropol, in such manner as may be reasonably required by Westhouse and Metropol with a view to the maintenance of an orderly market in the Ordinary Shares.

21. Major Shareholder

Erith, in whose shares Mr Baranov and Mr Azizov beneficially interested, is expected, following Admission, to hold 59.5 per cent. of the issued share capital of Zirax. Zirax and Erith have entered into a Deed of Undertaking whereby Erith has undertaken to exercise all rights and powers as a shareholder to ensure, amongst other things, that the Board will be able to carry on its business and make operating decisions independently of Erith and that any transactions between Erith or its associates and any company in the Group will be on arm's length terms.

A summary of the Relationship Deed is set out in paragraph 11.10 of Part V of this document.

22. Environmental standards

Environmental legislation and regulation is constantly evolving in the Russian Federation and the enforcement of such regulations is continually being re-assessed by the relevant authorities. The Company re-evaluates its obligations at regular intervals and immediately takes action once any new obligations are determined. The Company has also commissioned studies with and relied on such studies prepared by Russian research institutions (such as the Russian Academy of Science and Ecos Science Research Centre) to ascertain the environmental effect of its de-icing products which have been used to support the Company's bid for the Moscow municipality contracts. (Further information in this respect is set out in Part II of this document).

23. CREST

CREST is a paperless settlement procedure enabling securities to be evidenced otherwise than by a certificate and transferred otherwise than by a written instrument in accordance with the Uncertificated Securities Regulations 2001. The Articles of Association permit the holding of Ordinary Shares under the CREST system. All the Ordinary Shares will be in registered form and no temporary documents of title will be issued. Zirax has applied for the Ordinary Shares to be admitted to CREST and it is expected that the Ordinary Shares will be so admitted and accordingly enabled for settlement in CREST on the date of Admission. It is expected that Admission will become effective and dealings in Ordinary Shares will commence on 16 December 2005. Accordingly, settlement of transactions in Ordinary Shares following Admission may take place within the CREST system if any shareholder so wishes. CREST is a voluntary system and holders of the Ordinary Shares who wish to receive and retain share certificates will be able to do so.

24. UK taxation

Information regarding UK taxation with regard to certain holders of the Ordinary Shares is set out in paragraph 16 of Part V of this document. If you are in any doubt as to your tax position, you should contact your professional adviser.

25. Further information

Your attention is drawn to the information set out in Parts II to V of this document, in particular Part II which is titled Risk Factors.

PART II

RISK FACTORS

In addition to the other relevant information set out in this document, the following specific factors should be considered carefully in evaluating whether to make an investment in Zirax. The investment offered in this document may not be suitable for all of its recipients. Before making an investment decision, prospective investors are advised to consult an independent financial adviser authorised under FSMA who specialises in advising on investments of this kind. A prospective investor should carefully consider whether an investment in Zirax is suitable in the light of personal circumstances and the financial resources available.

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

Sovereign risks

Risks generally associated with businesses in emerging markets

Whilst there have been improvements in economic trends in the country, the Russian Federation continues to display certain characteristics of an emerging market. Investors in emerging markets should be aware that these markets are subject to greater risk than more developed markets. These risks include, but are not limited to, significant legal, economic and political risks. The economy of the Russian Federation continues to undergo rapid change and the information set out in this document may become outdated relatively quickly. Generally, investment in emerging markets is only suitable for sophisticated investors who fully appreciate the significance of the risks involved.

Political and social risks

Following the collapse of the communist regime in the early 1990s Russia has been going through a period of transformation to a democracy based on market economy. As a result of the enormity of the undertaking and the number of reforms to be carried out, the Russian political system remains vulnerable to popular dissatisfaction as well as demands for autonomy from different regional and ethnic groups. Any disruption or reversal of the reform policies, recurrence of political or governmental instability or occurrence of conflicts with any of the powerful economic groups that emerged in the last decade could have a material adverse effect on the Group's business.

The delineation of authority and jurisdiction between the various regions, districts, cities of federal importance and the federal authorities are often unclear and contested which together with the lack of consensus between them result in the enactment of conflicting legislation. For example, conflicting laws have been enacted in relation to property and licensing. The Company is registered under the jurisdiction of the Svetly Yar District whose jurisdiction in respect of the same territory has been challenged in respect of other companies by the City of Volgograd. Such challenge may occur in respect of the Company in the future. This could lead to uncertainties in relation to the Company's taxation, licensing and registration position which may have an adverse effect on the Group's business.

In the last few years there have been reports of significant criminal activity, including organised crime as well as high levels of official corruption including for the purpose of discrediting competitors by inducing investigations and possible false prosecutions by governmental authorities or through the creation of negative media campaigns. Any such occurrence against the Group or the Company may bring negative publicity, disrupt the Group's operations and thereby have a material adverse effect of its reputation and financial condition.

Economic risks

In the last decade the economy of the Russian Federation has experienced at various times hyperinflation, high levels of corruption, significant increases is unemployment, unstable currency, high government debt relative to gross domestic production, a weak banking system which impairs the availability of consistent source of liquidity for Russian companies, widespread tax evasion and lack of efficient insolvency procedures allowing loss-making businesses to continue their operation.

Recently, the Russian economy has however experienced positive trends, such as the increase in national product, relative stability of national currency, rising average income resulting in increase consumer demand and a reduced rate of inflation. These trends, however, may not continue or may be abruptly reversed.

Risks relating to the currency and the banking system

Russian Roubles are not freely convertible in most countries outside of the Russian Federation and are subject to restrictive national currency controls. The Russian banking and other financial systems are not well developed or regulated and the applicable legislation is subject to differing interpretations and inconsistent applications. The recent and rapid increase in lending by Russian banks and the revocation of the licences of several Russian banks have initiated rumours that further closures may occur. If a banking crisis is to occur, Russian companies including the Company are likely to be subject to liquidity constraints which might have a material adverse effect on the Group's business.

Legal and regulatory uncertainties and risks

The legal framework supporting the market economy remains undeveloped relative to more developed market economies. As a result, there are inconsistent and unclear laws, a lack of clear judicial and administrative guidance on interpretation of such laws coupled with an inexperienced judiciary. Governmental authorities also have a high degree of discretion which may result in arbitrary actions or decision.

The Company operates in a complicated regulatory environment and many aspects of the Russian legal system create uncertainties with respect to various legal and business decisions that the Company has to make in the course of its activities. Such uncertainties include numerous and rapid changes in laws, inconsistencies between legislative and governmental measures on local, regional and federal level, substantial loopholes in the regulatory structure in general, the lack of judicial and administrative guidance on interpreting many normative acts and the limited value of judicial decisions, inexperienced judiciary whose independence may be subject to various external influences, certain problems with enforcement procedures for court judgements, various resolutions, regulations and decisions adopted without clear basis by different governmental and local authorities with a high degree of discretion.

In addition, Russia is not party to any multilateral or bilateral treaties with most Western jurisdictions, including the United Kingdom, for the mutual enforcement of court judgements. Should a judgment be obtained from a court in any such jurisdiction it is unlikely to be given direct effect in Russian courts. Russia (as successor to the Soviet Union) is, however, a party to the 1958 New York convention on the Recognition and Enforcement of Foreign Arbitral Awards. A foreign arbitral award obtained in a state that is party to the above Convention should be recognized and enforced in a Russian court (subject to the qualifications provided for the New York Convention and compliance with respective Russian procedural regulations and other applicable requirements).

The Russian Federal Service for Financial Markets ("FSFM") has publicly expressed its intention to change the existing legislation with respect to foreign exchange listing of securities of foreign issuers the main assets of which are shares or equity interests in Russian companies and hence may introduce various regulations and procedures which may potentially restrict such listing or otherwise negatively affect such listing. Although the relevant Russian legislation does not currently apply to the Admission (Zirax not being a Russian issuer) there is no assurance that any future rules will not apply or that the FSFM will view the Admission unfavourably which may result in governmental action being taken against Zirax or the Company.

Russia's federal and local tax laws and regulations are subject to frequent change, varying interpretations and inconsistent enforcement. For example, some tax laws are unclear with respect to the deductability of certain expenses, recoverability of VAT, etc. The possibility cannot be excluded that Russian tax authorities in some instances would take a conflicting view as to compliance with tax obligations by the Company in spite of the Company's best efforts at compliance and impose arbitrary or onerous penalties, which may have a substantial adverse affect on the Company's position. These conditions complicate the Company's tax planning and related business decisions.

In addition to the general risks the following risks are specific to the business of the Group:

- The operation of the Company is subject to various regulations on obtaining and renewing various licences and permits (such as operational or environmental) as well as ongoing compliance with existing laws, regulations and standards (for example, regulatory industry quality standards). Regulatory authorities have considerable discretion in matters of interpretation and enforcement of the applicable laws and in the monitoring of compliance thereof. It cannot therefore be excluded that negative, unexpected or arbitrary regulatory and other decisions may be passed against the Company which are or are not based on legal considerations and which may lead to the imposition of fines or other penalties, or even the suspension or withdrawal of the relevant licence or permit.
- Under Russian corporate law when one person or entity is capable of determining decisions made by another entity, such entity being a subsidiary or joint venture, it may under certain circumstances be held to be jointly and severally liable for the actions of that latter subsidiary or joint venture. This provision is potentially applicable to a sole corporate shareholder such as Zirax and would result in Zirax bearing joint and several responsibility for transactions concluded by the Company if Zirax gives obligatory directions to the Company in respect of the decision in question. Zirax may also bear secondary liability for the Company's debts if it becomes insolvent as a result of the action or inaction of Zirax. Any such liability could have a material adverse effect on Zirax's financial condition.
- There is a significant uncertainty in the interpretation of Russian corporate governance rules which is coupled with rapid developments in the relevant laws. As a result of this uncertainty it may be argued that certain transactions or actions by members of the Group, their predecessors or another company with which Global-Kaustik has contractual relations were not approved by requisite corporate actions or otherwise were non-compliant with applicable Russian laws. For example, certain transactions with interested parties require specific corporate approvals, but the law in this respect is not unequivocally clear. In general terms, interested parties include any of the Company's participants, together with their affiliates, that own at least 20 per cent. of the Company's shares, the Company's directors, Chief Executive Officer or any entities in which these entities or individuals own a specified interest or occupy specified positions. The concept of "interested parties" is defined with reference to the concepts of "affiliated persons", "beneficiaries" and "group of persons" under Russian law, which are subject to various, sometimes conflicting, interpretations. Therefore the Company and the Group cannot be certain that the application of these concepts either currently or in the past will not be subject to challenge. Such transactions with "interested parties" can be challenged by governmental authorities, members, transaction counter-parties or other persons having been interested in such challenge. For instance it is possible that transactions between the Group and Kaustik could be subject to such challenge. If any challenge is successful the relevant transaction or action could be invalidated which may have a material adverse effect on the Group's business.
- The Company has engaged and will continue to engage in transactions with related parties including equity purchases, sale and supply contracts, loan arrangements and real estate transactions. Conflicts of interest may arise between the Company and affiliated companies and matters taken into account other than those strictly related to the transaction in question. If a transaction price differs from the market price by more than 20 per cent. the Russian tax authorities may make transfer pricing adjustments and impose additional tax liabilities. The Russian transfer pricing rules are vaguely drafted leaving scope for interpretation by the Russian tax authorities and courts due which could give rise to adjustments and fines which could have an adverse effect on the Group's business.

The Company may be subject to Russian anti-monopoly regulation through Russia's anti-monopoly authority which is entitled to regulate Russian companies deemed to be a dominant force in, or a monopolist of, a market. As sometimes the definition of a "market" under the respective Russian laws and practices is uncertain, it may be difficult at times to determine under what circumstances the

Company may be subject to anti-monopoly regulation. The Company's current or future position on the market could therefore trigger scrutiny by the anti-monopoly authority of the pricing and other terms of the Company's business and make the Company subject to anti-monoploy regulation which could adversely affect its business activities. The definitions of "affiliated persons" and "group of persons" referred to in the Russian anti-monopoly law are not unequivocally clear and are subject to different interpretations that may be applied with respect to the Company's past, current or future agreements with related parties. As a result, Russian anti-monopoly or other competent authorities may challenge the positions that the Company or its officers, directors or participants have taken in this respect. Any such successful challenge by any such authorities may expose the Company or its respective officers, directors or participants to fines, penalties and may result in the invalidation of certain agreements which may adversely affect the business operations of the Group.

Other legislative, administrative, taxation or other regulatory risks

The Group's existing and potential customers operate in numerous countries, each of which has its own national characteristics in terms of how business is regulated and conducted in terms of economic, political, judicial, administrative, taxation or other regulatory matters. The Group's business could therefore be affected by any one of these factors, as well as other unforeseen matters, which, particularly given the size of the individual contracts with customers, could have a material adverse effect on the business, operating results or financial condition of the Group.

The Directors currently intend to ensure that Zirax conducts its affairs in such manner that it is not regarded as tax resident in any jurisdiction other than the UK. If Zirax's tax residency is successfully challenged by the relevant tax authorities (including the tax authorities of the Russian Federation) the Group may incur additional tax liabilities which could adversely affect its business.

Fluctuations in oil and gas prices

While the Group is relatively insulated from short-term fluctuations in oil and gas prices, such fluctuations do lead to uncertainty in the oil and gas industry. Whilst oilfield chemicals make up a small proportion of the total cost of oil extraction there is a risk that lower oil prices would lead to a reduction in the use of oilfield process chemicals. Oilfield chemicals are used in greater quantities in wells where production is more difficult, in the event of a material fall in oil prices there is a risk that these fields would close.

Competition

Products are available which compete directly or indirectly with the Group's products. New technology, changing commercial circumstances and new entrants to the markets in which the Group operates may adversely affect the Group's business. Although there are currently only a few direct competitors of the Group in all three market segments where it sells its product, some of these companies have significantly larger resources than those of the Group.

Dependence on key clients

The Group is dependent upon a relatively small number of key clients. The loss of one or more of these key clients, either to a competitor or through the customer developing its own products or otherwise, would have a material adverse effect on the Group's revenues.

Market for de-icing products

The seasonal nature of the sale of de-icing products has an effect on the Company's cash-flow position which, despite the Directors' efforts to secure short-term financing to bridge such periods, may leave the Group in a financially exposed position.

The Group's sale of de-icing agents to municipal authorities depend on the Company being awarded those supply contracts on the basis of annual public procurement tenders. The Company may lose one or more of these contracts from year to year or the contractual terms may become less beneficial to the Group which will adversely affect the Group's revenues in this market sector. Payments due to the

Company pursuant to these contracts are subject to availability of funds from central and local government budget which may be unexpectedly cut as a result of which the Company may not be able to recover payment.

Product liability risks

The Company's products, particularly those sold into the oil and gas sectors are required to be of a certified quality. Whilst the Company has not previously encountered problems with the quality of its products and the Directors believe that the Company operates an adequate quality control environment, there are no guarantees that the Company will not encounter such problems in the future.

Environmental issues

Environmental legislation and regulation is constantly evolving in the Russian Federation and the enforcement of such regulations is continually being re-assessed by the relevant authorities. In addition, due to growing international concerns and to the conditions attached to international financing the pressure is increasing on Russian authorities to take action against environmental abuse. Coupled with the general risks in relation to the legislative and regulatory environment in Russia as described in the paragraph title "Sovereign Risks" above potential extra costs, expenses and liabilities might arise as a result of unexpected changes in existing regulations or legislation and the potentially arbitrary enforcement of such rules.

Whilst calcium chloride is essentially non-toxic and presents no unusual hazard to people, animals, or the environment, the Group's operations are subject to existing Russian laws regarding environmental matters and the discharge of hazardous waste and materials. The operations of other companies in the Chemical Park (in particular, Kaustik's) are more environmentally sensitive than those of the Company and changes in environmental legislation could have an indirect effect on the Company's business.

Operating risks

The Group is subject to a range of other operating risks to which all chemical manufacturers are exposed, including: industrial accidents, technical failures, labour disputes, supply issues, fire, explosions and other industrial plant issues, all of which may include aspects that may be beyond the Group's control.

The physical infrastructure in Russia is in poor condition which could disrupt normal business activity and increase operational costs and which in turn could adversely effect the Company's business.

Reliance on Directors and Senior Management

In common with many smaller companies, the Group's success will be influenced by the retention of senior employees. The loss of the service of any member of the senior management team could have a material adverse effect on the Group.

Foreign exchange risk

Whilst some of the Group's revenues are denominated in US$ the majority of its costs are incurred in RUB. Profitability in terms of the Group's reporting currency (US$) and its capacity to pay dividends will be dependent upon exchange rates between the RUB and US$.

Intellectual property

It is the practice of the Company to enter into confidentiality agreements with its key employees, consultants and third parties to whom the Company discloses its confidential and proprietary information. There can be no assurance, however, that these measures will prevent the unauthorised disclosure or use of the Group's IP Rights and trade secrets or that others may not independently develop similar expertise.

Insurance

The Company has not historically carried the types of insurance cover customary for a business of its size and nature in developed market economies because of the difficulty in negotiating reasonable terms with insurers. Thus a significant event (for example damage caused by snow or underground water) could result in substantial property loss and inability to reinstate building or plants and machinery in a timely manner or at all affecting the Group's business adversely.

Retention of key business relationships

The Group relies significantly on relationships with other entities (including customers and suppliers) and also on good relationships with Russian regulatory and Government departments. The Group also relies upon third parties to provide essential Russian services on a contractual basis.

The Company has signed supply agreements with Kaustik for the provision of raw materials, the subcontracting of IceMelt™ production, support services and access to the Company's facility. Whilst the Company has a long-term supply contract with Kaustik which is mutually beneficial (in that it provides for a reliable off-take for Kaustik's hydrochloric acid produced as a by-product of its activities and a cost effective source of supply of hydrochloric acid for the Company), it cannot be excluded that the cost of supply of hydrochloric acid will be increased in due course. Furthermore, the contract may be terminated at a relatively short notice by either party. The ongoing relationship with Kaustik will therefore be a material factor in the Group's ongoing success.

While the Directors have no reason to believe otherwise, there can be no assurance that the Group's existing relationships will continue or that new ones will be successfully formed and the Group could be adversely affected by changes to such relationships or difficulties in forming new ones. Any circumstance, which causes the early termination or non-renewal of one of these key business relationships, could adversely impact upon the Group, its business, operating results or prospects.

Investment risk and AIM

Prior to Admission, there has been no public market in the Ordinary Shares. Whilst Zirax is applying for the admission to AIM, there can be no assurance that an active trading market for the Ordinary Shares will develop, or if developed, that it will be maintained. AIM is a market for emerging or smaller companies and may not provide the liquidity normally associated with the Official List or other exchanges.

The future success of AIM and the liquidity in the market for Ordinary Shares cannot be guaranteed. In particular, the market for Ordinary Shares may be, or may become, relatively illiquid particularly given the lock-in and orderly market arrangements described in paragraph 11.5 of Part V of this document and therefore the Ordinary Shares may be or may become difficult to sell.

The market price of the Ordinary Shares could be subject to significant fluctuations due to a change in investor sentiment regarding the Ordinary Shares or in response to various facts and events, including variations in the Group's interim or full year operating results and business developments of the Group and/or its competitors.

Potential investors should be aware that the value of securities and the income from them can go down as well as up and that investment in a security which is traded on AIM might be less realisable and generally carries a higher risk than a security quoted on the Official List.

The price which investors may realise for their holding of Ordinary Shares, and when they are able to do so, may be influenced by a large number of factors, some of which are specific to the Group and others of which are extraneous.

PART III

HISTORICAL FINANCIAL INFORMATION

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
1 Embankment Place
London WC2N 6RH

The Directors
Zirax plc
51 Eastcheap
London EC3M 1JP

Westhouse Securities LLP (the "Nominated Adviser")
Clements House
14-18 Gresham Street
London EC2V 7NN

12 December 2005

Dear Sirs

Zirax plc

Introduction

We report on the financial information set out on pages 33 to 34 below. This financial information has been prepared for inclusion in the admission document dated 12 December 2005 (the "Investment Circular") of Zirax plc (the "Company") on the basis of the accounting policies set out on page 34. This report is required by item 20.1 of Annex 1 to the AIM Rules and is given for the purposes of complying with that paragraph and for not other purpose.

The Company was incorporated as Zirax plc on 11 August 2005. Save for entering into the agreements referred to on pages 76 and 77 of Part V of the Admission Document, the Company has not yet commenced trading, has prepared no financial statements for presentation to its members and has not declared or paid a dividend.

Responsibilities

As described on page 34, the Directors of the Company are responsible for preparing the financial information in accordance with International Financial Reporting Standards.

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

Basis of opinion

We conducted our work in accordance with Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the special purpose financial information. It also included an assessment of significant estimates and judgments made by those responsible for the preparation of the special purpose financial information and whether the accounting polices are appropriate to the Company's circumstances consistently applied and adequately disclosed.

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

Opinion

In our opinion, the financial information gives, for the purposes of the Investment Circular, a true and fair view of the state of affairs of the Company as at the date stated in accordance with the basis of the preparation set out in note 1 and in accordance with International Financial Reporting Standards.

Declaration

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

Yours faithfully

PricewaterhouseCoopers LLP
Chartered Accountants

Zirax plc

BALANCE SHEET

(in thousands of US$ unless otherwise stated)

	Notes	*30 September 2005*
Current assets		
Cash and cash equivalents		176
Deferred expenses	3	458
		634
Creditors payable within less than one year		
Accounts payable and accrued charges		(458)
Net assets		176
Shareholders' equity		
Share capital	3	176
Total equity		176

NOTES TO THE FINANCIAL INFORMATION

1. The Company and its operations

Zirax plc (the "Company") was incorporated in the United Kingdom on 11 August 2005. The Company did not trade during the period.

2. Basis of preparation of the financial information

The financial information of Zirax plc ("the Company") has been prepared under the historical cost convention in accordance with International Financial Reporting Standards ("IFRS").

The directors are responsible for preparing the financial information.

3. Summary of significant accounting policies

3.1 Functional and presentation currency

Sterling is the functional currency of the Company as it is the currency of the primary economic environment in which it operates. The United States Dollar ("US Dollar or US$") is the currency used to present the financial information in order to improve the understanding of the financial position of the Company by increasing the comparability with the financial information of Global Kaustik LLC, the operating subsidiary acquired since the balance sheet date.

The financial position for the period ended September 2005 has been translated into US$ at the closing rate at the date of that balance sheet (£1 = US$1.7637).

3.2 Deferred expenses

The deferred expenses incurred by the Company relate to the proposed share offer and admission to the Alternative Investment Market. These will be charged to the share premium account arising on the proposed issue of shares in connection therewith. Accordingly, such costs have been treated as deferred expenses with a corresponding accrual reflecting the fact that the amounts had not been paid at the balance sheet date. If the proposed issue is not completed, the costs will be charged to the profit and loss account.

3.3 Share capital

The Company was incorporated on 11 August 2005 with an authorised share capital of 500,000,000 Ordinary shares of £ 0.01 each, of which 10,000,000 were issued and fully paid.

4. Events after the balance sheet date

On 28 October 2005 Zirax plc entered into a share purchase agreement with Valery Andosov and a BVI entity, Erith pursuant to which it purchased the entire equity interest in the charter capital of a Russian based company, Global-Kaustik LLC for an aggregate consideration of £2,900,000.

On 1 November 2005, a further 17,000,000 and 3,000,000 Ordinary Shares were issued and fully paid to a BVI entity, Erith and Valery Andosov respectively at nominal value for cash for an aggregate subscription price of £200,000. On the same day another 77,031,250 and 13,593,750 Ordinary Shares were issued to Erith and Valery Andosov respectively at an aggregate subscription price of £2,900,000.

On 3 November 2005 Zirax plc entered into two set-off agreements with V. Andosov and Erith respectively. Under the Set-Off Agreements Zirax plc agreed to set-off the aggregate £2,900,000 purchase price due and payable to Erith and Mr Andosov by Zirax plc for the acquisition of Global-Kaustik LLC against the called-up but unpaid subscription price due from Erith and V. Andosov to Zirax plc in respect of the issue of Ordinary Shares described above.

PRICEWATERHOUSECOOPERS

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Zirax plc
51 Eastcheap
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Westhouse Securities LLP (the "Nominated Adviser")
Clements House
14-18 Gresham Street
London EC2V 7NN

12 December 2005

Dear Sirs

Global Kaustik LLC

We report on the financial information set out on pages 37 to 67 below relating to Global-Kaustik LLC (the "Company"). This financial information has been prepared for inclusion in the AIM admission document dated 12 December 2005 (the "document") of Zirax plc on the basis of the accounting policies set out on pages 41 to 43. This report is required by item 20.1 of Annex I to the AIM Rules and is given for the purpose of complying with that paragraph and for no other purpose.

Responsibilities

As described on pages 41 and 42, the Directors of Zirax plc are responsible for preparing the financial information on the basis of preparation set out in note 2 to the financial information and in accordance with International Financial Reporting Standards.

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

Basis of opinion

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

Opinion

In our opinion, the financial information gives, for the purposes of the document dated 12 December 2005, a true and fair view of the state of affairs of the Company as at the dates stated and of its profits, cash flows and changes in net assets attributable to participants for the periods then ended in accordance with the basis of preparation set out in note 2 and in accordance with International Financial Reporting Standards as described in note 2.

Declaration

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

Yours faithfully

PricewaterhouseCoopers LLP
Chartered Accountants

Global-Kaustik LLC

Financial Information prepared in accordance with International Financial Reporting Standards

Nine months ended 30 September 2005 and 2004
Years ended 31 December 2004 and 2003
Period ended 31 December 2002

BALANCE SHEET

(in thousands of US$ unless otherwise stated)

	Note	*30 September 2005*	*31 December 2004*	*31 December 2003*	*31 December 2002*
ASSETS					
Current assets					
Cash and cash equivalents	6	126	721	117	115
Accounts receivable and prepayments	7	5,471	2,742	1,269	898
Financial assets	11	98	132	–	–
Inventories	8	652	524	409	155
VAT recoverable		1,717	741	980	490
Other current assets	9	437	397	67	1
Total current assets		8,501	5,257	2,842	1,659
Non-current assets					
Property, plant and equipment	10	6,382	2,658	2,558	2,317
Total assets		14,883	7,915	5,400	3,976
LIABILITIES					
Current liabilities					
Accounts payable and accrued charges	12	3,238	1,002	601	333
Income taxes payable		–	–	57	76
Other taxes payable	14	251	96	241	96
Borrowings	13	3,004	837	–	–
Advances received		134	162	115	32
Total current liabilities		6,627	2,097	1,014	537
Non-current liabilities, excluding net assets attributable to participants					
Long-term borrowings	13	1,038	–	–	–
Deferred tax liabilities	16	–	19	26	24
Total liabilities, excluding net assets attributable to participants		7,665	2,116	1,040	561
Net assets attributable to participants					
Charter capital	15	3,704	3,810	3,611	3,306
Contribution premium		1	2	1	1
Retained earnings		3,444	1,848	694	108
Translation difference		69	139	54	–
Total net assets attributable to participants		7,218	5,799	4,360	3,415
Total liabilities		14,883	7,915	5,400	3,976

The accompanying notes are an integral part of this financial information.

INCOME STATEMENT

(in thousands of US$ unless otherwise stated)

	Note	*9 months ended 30 September 2005*	*9 months ended 30 September 2004*	*Year ended 31 December 2004*	*Year ended 31 December 2003*	*Period ended 31 December 2002*
Revenue	18	14,970	12,103	17,163	9,967	2,470
Cost of sales	19	(8,292)	(6,863)	(9,710)	(6,319)	(1,374)
Gross profit		6,678	5,240	7,453	3,648	1,096
Distribution costs	20	(3,496)	(3,092)	(4,584)	(2,344)	(692)
General and administrative expenses	21	(922)	(763)	(1,214)	(481)	(187)
Operating profit		2,260	1,385	1,655	823	217
Interest expense		(91)	(61)	(80)	(11)	(3)
Income before taxation		2,169	1,324	1,575	812	214
Taxation	16	(573)	(334)	(421)	(226)	(106)
Profit for the period		1,596	990	1,154	586	108
Earnings per share expressed in US cents per share	(a)	1.32	0.82	0.96	0.49	0.09

Note (a)
Earnings per share is calculated by dividing the earnings attributable to participants by the relevant number of shares in the new parent company, Zirax plc (before the issue of shares to raise new funds).

The accompanying notes are an integral part of this financial information.

STATEMENT OF CASH FLOWS

(in thousands of US$ unless otherwise stated)

	Note	*9 months ended 30 September 2005*	*9 months ended 30 September 2004*	*Year ended 31 December 2004*	*Year ended 31 December 2003*	*Period ended 31 December 2002*
Income before taxation		2,169	1,324	1,575	812	214
Adjustments for:						
Depreciation of property, plant and equipment	10	207	150	193	134	34
Provision for impairment of receivables		–	–	–	7	–
Interest expense		91	60	81	11	–
Loss on disposal of property, plant, and equipment		1	–	–	–	–
Inventory write downs		1	7	–	–	–
Loss on hyper-inflation adjustment		–	–	–	–	54
Operating cash flows before working capital changes		2,469	1,541	1,849	964	302
Increase in accounts receivables and prepayments		(2,756)	(2,011)	(1,301)	(276)	(897)
Increase in other current assets		(1,054)	(18)	(32)	(475)	(493)
Increase in inventories		(145)	(65)	(89)	(224)	(155)
Increase in accounts payable and accrued expenses		641	556	355	221	333
Increase/(Decrease) in taxes payable		159	(50)	(152)	126	96
(Decrease)/Increase in advances from customers		(23)	114	39	75	32
Cash (absorbed)/generated by operations		(709)	67	669	411	(782)
Income taxes paid		(592)	(195)	(487)	(249)	(6)
Net cash (absorbed)/provided by operating activities		(1,301)	(128)	182	162	(788)
Cash flows from investing activities:						
Purchase of property, plant and equipment		(2,324)	(131)	(154)	(160)	(1,482)
Loans granted to related parties		(78)	–	(52)	–	–
Purchase of financial assets		(1,623)	–	(127)	–	–
Sale of financial assets		1,654	–	–	–	–
Net cash used in investing activities		(2,371)	(131)	(333)	(160)	(1,482)
Cash flows from financing activities:						
Contributions to charter capital		–	–	–	–	2,385
Proceeds from borrowings		7,024	2,258	3,994	295	–
Repayment of borrowings		(3,980)	(1,739)	(3,194)	(295)	–
Interest paid		(137)	(61)	(73)	(11)	–
Net cash generated/(used) by financing activities		2,907	458	727	(11)	2,385
Effects of exchange rate changes		(13)	(2)	29	11	–
Net (decrease)/increase in cash and cash equivalents		(778)	197	605	2	115
Cash – beginning of the period		721	117	117	115	–
(Overdraft)/Cash – end of the period	6	(57)	314	721	117	115

The accompanying notes are an integral part of this financial information.

STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO PARTICIPANTS

(in thousands of US$ unless otherwise stated)

	Charter capital	*Contribution premium*	*Retained earnings*	*Translation difference*	*Total participants' equity*
Issued on 7 February 2002	6	–	–	–	6
Issue of charter capital on 21 April 2002	3,300	1	–	–	3,301
Net income for the period	–	–	108	–	108
Balance at 31 December 2002	3,306	1	108	–	3,415
Balance at 1 January 2003	3,306	1	108	–	3,415
Net income for the year	–	–	586	–	586
Effect of exchange rates	305	–	–	52	357
Balance at 31 December 2003	3,611	1	694	52	4,358
Balance at 1 January 2004	3,611	1	694	52	4,358
Net income for the year	–	–	1,154	–	1,154
Effect of exchange rates	199	1	–	84	284
Balance at 31 December 2004	3,810	2	1,848	136	5,796
Balance at 1 January 2005	3,810	2	1,848	136	5,796
Net income for the period	–	–	1,596	–	1,596
Effect of exchange rates	(106)	(1)	–	(70)	(177)
Balance at 30 September 2005	3,704	1	3,444	66	7,215

The accompanying notes are an integral part of this financial information.

NOTES TO THE FINANCIAL INFORMATION

(in thousands of US$ unless otherwise stated)

1. The Company and its operations

Global-Kaustik LLC's (hereinafter – the "Company") principal activities are, production, marketing and distribution in global markets of oilfield process chemicals as well as other specialty chemical products, including de-icing agents and food additives.

The production facility is located in the City of Volgograd, Russian Federation. The Company was incorporated in the Russian Federation as a limited liability company on 7 February 2002. At 30 September 2005 the Company employed 49 employees (31 December 2004: 28 employees, 31 December 2003: 19 employees, 31 December 2002: 8 employees). The registered office of the Company is located at: 404171, Russia, Volgogradskaya oblast, Svetloyarski raion, r.p. Svetly Yar, mikr. 4, bld. 6.

Until May 2005, the following Participants controlled the Company:

- 51 per cent. of equity units were owned by Global Specialty Chemicals Ltd, the ultimate parent company, organised and existing under the laws of the Commonwealth of Virginia, the United States of America, with a registered office at 7918 Jones Branch Drive, Suite 600, McLean, VA, 22102, USA. Global Specialty Chemicals Ltd is controlled by individual beneficial shareholders.
- 25 per cent. of equity units were owned by Evroles LLC, a Russian limited liability company, organised and existing under the laws of the Russian Federation at 199155, Saint-Petersburg, KIM avenue, bld. 9, lit "A".
- 24 per cent. of equity units were owned by JSC Kaustik, a Russian joint stock company, organised and existing under the laws of the Russian Federation at 400097, Russia, Volgograd, Ul. 40 Let VLKSM, 57.

In May 2005, the ownership structure changed as follows:

- 6 per cent. of the Company's equity units were sold by JSC Kaustik to JSC Plastcard, a Russian joint stock company, organised and existing under the laws of the Russian Federation at 400097, Russia, Volgograd, Ul. 40 Let VLKSM, 57, territory of JSC Kaustik, bld. 43.

A restructuring in September 2005 resulted in the following Participants controlling the company as at 30 September 2005 (Note 15):

- 85 per cent. of the Company's equity units are owned by Erith Group Limited, ultimate parent company, organised and existing under the laws of the Commonwealth of British Virgin Islands, with a registered office at Trident Chambers, P.O. Box 146, Road Town, Tortola, British Virgin Islands. Erith Group Limited is owned by two individual beneficial shareholders in equal portions. The two shareholders are JSC Kaustik's Chairman and Chief Executive Officer.
- 15 per cent. of the Company's equity units are owned by Valery Yurievich Andosov, General Director of the Company.

2. Basis of preparation of the financial information

This financial information has been prepared in accordance with, and comply with, EU endorsed International Financial Reporting Standards ("IFRS"). The directors of Zirax plc are responsible for preparing the financial information.

The Company has adopted IFRS since the date of its registration. Accordingly, the corresponding figures reflect the results of its operations for the period since 7 February 2002.

The Company maintains its accounting records in Russian Roubles ("RR") and prepares its statutory financial statements in accordance with the Federal Law of the Russian Federation on Accounting. The financial information is based on the statutory records, with adjustments and reclassifications recorded for the purpose of fair presentation in accordance with IFRS.

(in thousands of US$ unless otherwise stated)

The financial information has been prepared under the historical cost convention except as disclosed in the accounting policies below. For example, financial assets at fair value through profit and loss are presented at fair value as described in Note 3.7.

This financial information has been prepared solely for the purposes of the Admission Document of Zirax plc which assumes that on the listing of Zirax plc and the offering of its Ordinary Shares sufficient proceeds will be raised, together with its existing capital resources, to enable it to meet its working capital requirements over the next twelve months.

Adoption of revised standards

In 2004, the Company early adopted the revised IFRS below, which are relevant to its operations and would otherwise have been effective from 1 January 2005. The prior period amounts have been amended where appropriate, in accordance with the relevant requirements.

IAS 1 (revised 2003)	Presentation of Financial Statements
IAS 2 (revised 2003)	Inventories
IAS 8 (revised 2003)	Accounting Policies, Changes in Accounting Estimates and Errors
IAS 10 (revised 2003)	Events after the Balance Sheet Date
IAS 16 (revised 2003)	Property, Plant and Equipment
IAS 21 (revised 2003)	The Effects of Changes in Foreign Exchange Rates
IAS 24 (revised 2003)	Related Party Disclosures
IAS 36 (revised 2004)	Impairment of Assets

The adoption these standards did not result in substantial changes to the Company's accounting policies.

The principal accounting policies adopted by the Company are consistent with those disclosed for all periods in this financial information.

In 2005, the Company adopted the revised IFRS below, which are relevant to its operations. This financial information has been amended in accordance with the relevant requirements.

IAS 39 (revised 2004)	Financial Instruments: Recognition and Measurement
IAS 32 (revised 2003)	Financial Instruments: Disclosure and Presentation
IFRIC 2 (issued 2004)	Members' Shares in Co-operative Entities and Similar Instruments

The adoption of IAS 32 (revised 2003) and IAS 39 (revised 2004) has resulted in a change in the accounting policy relating to the classification, disclosure and measurement of financial assets at fair value through profit and loss.

Management estimates

The presentation of financial information under IFRS requires management to make prudent estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial information preparation and the reported amounts of revenue and expenses during the reporting period. Estimates have principally been made in respect of deferred taxation, provisions for impairment of receivables and inventory, useful economic lives of property, plant and equipment and fair value of financial assets. Actual results may differ from these estimates.

Accounting for the effect of inflation

Prior to 1 January 2003 the adjustments and reclassifications made to the statutory records for the purpose of IFRS presentation included the restatement of balances and transactions for the changes in the general purchasing power of the RR in accordance with IAS 29 "Financial Reporting in Hyperinflationary Economies". IAS 29 requires that the financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date. Accordingly, the amounts expressed in the measuring unit current at 31 December 2002 are treated as the basis for the carrying amounts for the period ended 31 December 2002 in this financial information.

(in thousands of US$ unless otherwise stated)

The restatement was calculated using the conversion factors derived from the Russian Federation Consumer Price Index ("CPI"), published by the Russian State Committee on Statistics ("Goscomstat"). The indices used to restate corresponding figures, for the period ended 31 December 2002, and the respective conversion factors, are:

Month	*Indices*	*Conversion Factor*
January	1.031	1.1166
February	1.012	1.1034
March	1.011	1.0914
April	1.012	1.0784
May	1.017	1.0604
June	1.005	1.0551
July	1.007	1.0478
August	1.001	1.0468
September	1.004	1.0426
October	1.011	1.0312
November	1.016	1.0150
December	1.015	1.0000

The main guidelines followed in restating the 2002 financial information are:

- All amounts are stated in terms of the measuring unit current at 31 December 2002.
- Monetary assets and liabilities held at 31 December 2002 are not restated because they are already expressed in terms of the monetary unit current at 31 December 2002.
- Non-monetary assets and liabilities (those balance sheet items that are not expressed in terms of the monetary unit current at 31 December 2002) and components of shareholders' equity are restated from their historical cost by applying the change in the CPI from the date the non-monetary item originated to the balance sheet date.
- All items in the income statement and cash flows are restated by applying the change in CPI from the dates when the items were initially transacted to the balance sheet date.
- Gains or losses that arise as a result of holding monetary assets and liabilities for the period are included in the income statement as a monetary gain or loss.

As the characteristics of the economic environment of the Russian Federation indicate that the hyperinflationary period has ceased, effective from 1 January 2003 the Company no longer applies the provisions of IAS 29.

3. Summary of significant accounting policies

3.1 Functional and presentation currency

The Russian Rouble ("RR") is the functional currency of the Company as it is the currency of the primary economic environment in which it operates. The United States Dollar ("US Dollar or US$") is the currency used to present the financial information in order to improve the understanding of the results and financial position of the Company outside the Russian Federation.

The results and financial position for the years ended 31 December 2003 and 2004 and the periods ended 30 September 2004 and 2005 have been translated into US$ using the following procedures:

(a) Assets and liabilities for each balance sheet presented have been translated at the closing rate at the date of that balance sheet;

(in thousands of US$ unless otherwise stated)

(b) Income and expenses for each income statement and each statement of cash flows have been translated at average exchange rates for the period (used to approximate the rates at the dates of the transactions); and

(c) All resulting exchange differences have been recognised as a separate component of equity.

The results and financial position for the period ended 31 December 2002 (when the Russian Federation economy was deemed to be hyperinflationary) have been translated into US$ using the closing rate at 31 December 2002.

The above translations were performed using the following rates:

Period	*Period end rate*	*Average rate*
Period ended 31 December 2002	31.930	n/a
Year ended 31 December 2003	29.230	31.345
Year ended 31 December 2004	27.710	28.730
Period ended 30 September 2004	29.219	28.910
Period ended 30 September 2005	28.499	28.211

Exchange restrictions and currency controls exist relating to converting the RR into other currencies. The RR is not freely convertible in most countries outside of the Russian Federation.

3.2 **Cash and cash equivalents**

Cash and cash equivalents comprises cash in hand and cash held on demand with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

3.3 **Trade receivables**

Trade receivables are recognised originally at fair value and subsequently measured at amortised cost using the effective interest method less provisions for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the market rate of interest for similar borrowers. The amount of the provision is recognised in the income statement.

3.4 **Value-added tax**

Value added taxes related to sales are payable to tax authorities upon collection of receivables from customers. Input VAT is reclaimable against sales VAT upon payment for purchases. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases which have not been settled at the balance sheet date (deferred VAT) is recognised in the balance sheet on a gross basis and disclosed separately as a current asset and liability. Where provision has been made for impairment of receivables, an impairment loss is recorded for the gross amount of the debtor, including VAT. The related VAT deferred liability is maintained until the debtor is written off for tax purposes.

3.5 **Inventories**

Inventories are recorded at the lower of cost and net realisable value. The cost of inventory is determined under the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overhead (based on normal operating capacity) but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

3.6 **Property, Plant and Equipment**

Property, plant and equipment is recorded at historical cost determined as purchase or construction cost. At each reporting date the management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). The carrying amount is reduced to the recoverable amount and the difference is recognised as an expense (impairment loss) in the income statement. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the assets recoverable amount.

Depreciation is calculated on the restated amounts of property, plant and equipment on a straight-line basis. The depreciation periods, which approximate to the estimated useful economic lives of the respective assets, are as follows:

	Years
Buildings	30 to 50
Plant and equipment	2 to 20
Vehicles	6 to 10

The assets' residual values and useful lives are reviewed, and adjusted, if appropriate, at each balance sheet date.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the income statement.

3.7 **Financial Assets**

The Company classifies its financial assets in the following categories: loans and receivables and financial assets at fair value through profit or loss. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

(a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Company provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet (see Note 3.3).

(b) Financial assets at fair value through profit and loss

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

All purchases and sales of financial assets are recognised on the trade date – the date on which the Company commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. The cost of purchase includes transaction costs. Subsequent to initial recognition, financial assets at fair value through profit or loss are carried at fair value, whilst loans and receivables are carried at amortised cost using the effective yield method. Realised and unrealised gains and losses arising from changes in the fair value of financial assets at fair value through profit or loss are included in the statement of income in the period in which they arise. The Company determines fair value of financial assets through profit or loss by using various valuation techniques. These include the use of recent arm's length transactions and reference to other instruments that are similar in nature.

3.8 Borrowings and borrowing costs

Borrowings are recognised initially at cost, which is the fair value of the proceeds received (which is determined using the prevailing market rate of interest for a similar instrument, if significantly different from the transaction price), net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective yield method; any difference between fair value of the proceeds (net of transaction costs) and the redemption amount is recognised as interest expense over the period of the borrowings. Interest costs on borrowings to finance the construction of property, plant and equipment are capitalised during the period of time that is required to complete and prepare the asset for its intended use. All other borrowing costs are expensed.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

3.9 Deferred income taxes

Deferred tax assets and liabilities are calculated in respect of temporary differences using the balance sheet liability method. Deferred income taxes are provided for all temporary differences arising between the tax basis of assets and liabilities and their carrying values for financial reporting purposes. A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

3.10 Non-cash transactions

Non-cash transactions have been excluded from the statement of cash flows. Therefore all investing and financing transactions as well as the results of operating activities represent actual cash transactions.

3.11 Foreign currency transactions

Monetary assets and liabilities, which are held by the Company and denominated in foreign currencies at the reporting date, are translated into the Russian Roubles ("RR") at the exchange rate prevailing at that date. Foreign currency transactions are accounted for at the exchange rate prevailing at the date of the transaction. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currency are recognised in the income statement.

3.12 Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Company expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

3.13 **Net assets attributable to participants**

Charter capital

The charter capital of the Company consists of registered, issued and fully paid equity units. Any excess of the fair value of consideration received over the par value of the participants' contribution is recognised as a contribution premium.

As a result of adoption of IAS 32 "Financial instruments: Disclosure and Presentation" (revised) and IFRIC 2 "Members' Shares in Co-operative Entities and Similar Instruments", net assets attributable to participants have been classified as liabilities, due to the fact that under Russian legislation participants of a limited liability company have the right to withdraw their share of statutory net assets from the Company.

Dividends

Dividends are recognised as a liability and deducted from equity at the balance sheet date only if they are declared before or on the balance sheet date. If dividends are proposed before the balance sheet date or proposed or declared after the balance sheet date but before the financial statements are authorised for issue, the amounts are disclosed in the financial statements.

3.14 **Revenue recognition**

Revenues are recorded net of VAT and recognised on the date when the risks and rewards of ownership are transferred to the customers. The risks and rewards are deemed to have been transferred when title has been passed to the customer in accordance with the particular sales contract or invoice. This may be the point when goods are delivered to the customers' warehouses, are loaded on the trucks from the site at Volgograd or unloaded from the ships for export sales depending on the particular scenario. Revenues are measured at the fair value of the consideration received or receivable.

When the fair value of consideration received cannot be measured reliably the revenue is recognised at the fair value of the goods or services given up (Note 17).

Other revenues earned by the Group are recognised on the following basis:

– Rental income – on an accrual basis.

– Interest income – on an effective yield basis.

3.15 **Segment reporting**

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different form those of segments operating in other economic environments.

3.16 **Employee benefits**

Short-term benefits

Wages, salaries, social contributions, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Company.

Pension, medical and social costs

The Company contributes to the Russian Federation state pension, medical and social insurance scheme in the normal course of the business. The mandatory contributions are expensed when the associated services are rendered by the employees of the Company.

(in thousands of US$ unless otherwise stated)

4. Segment information

Primary reporting format – business segments

At 30 September 2005, the Company is organized into two main business segments: (i) manufacture and sales of oilfield process chemicals, and (ii) manufacture and sales of de-icing agents.

Other Company operations mainly comprise the sale of food additives and provision of production facilities. Neither of these constitutes a separately reportable segment.

The segment results for the nine month period ended 30 September 2005 were as follows:

	Oilfield process chemicals	*De-icing agents*	*Other*	*Company*
Sales	3,097	10,761	1,112	14,970
Operating profit	463	1,610	187	2,260
Finance costs				(91)
Profit before taxation				2,169
Income tax				(573)
Net income				1,596

The segment results for the nine month period ended 30 September 2004 were as follows:

	Oilfield process chemicals	*De-icing agents*	*Other*	*Company*
Sales	2,456	9,087	560	12,103
Operating profit	281	1,039	65	1,385
Finance costs				(61)
Profit before taxation				1,324
Income tax				(334)
Net income				990

The segment results for the year ended 31 December 2004 were as follows:

	Oilfield process chemicals	*De-icing agents*	*Other*	*Company*
Sales	2,476	13,962	725	17,163
Operating profit	254	1,429	(28)	1,655
Finance costs				(80)
Profit before taxation				1,575
Income tax				(421)
Net income				1,154

(in thousands of US$ unless otherwise stated)

The segment results for the year ended 31 December 2003 were as follows:

	Oilfield process chemicals	*De-icing agents*	*Other*	*Company*
Sales	1,178	8,150	639	9,967
Operating profit	98	675	50	823
Finance costs				(11)
Profit before taxation				812
Income tax				(226)
Net income				586

The segment results for the period ended 31 December 2002 were as follows:

	Oilfield process chemicals	*De-icing agents*	*Other*	*Company*
Sales	31	2,258	181	2,470
Operating profit	3	248	(34)	217
Finance costs				(3)
Profit before taxation				214
Income tax				(106)
Net income				108

The total depreciation expenses included in the income statements for the above reporting periods were as follows (Note 10):

	Oilfield process chemicals	*De-icing agents*	*Other*	*Company*
Period ended 30 September 2005	43	149	15	207
Period ended 30 September 2004	30	113	7	150
Year ended 31 December 2004	28	156	9	193
Year ended 31 December 2003	17	108	9	134
Period ended 31 December 2002	–	31	3	34

NOTES TO THE FINANCIAL INFORMATION *(continued)*
(in thousands of US$ unless otherwise stated)

The segment assets and liabilities as at 30 September 2005 and capital expenditure for the nine month period then ended are as follows:

	Oilfield process chemicals	*De-icing agents*	*Other*	*Company*
Segment assets	3,032	10,538	1,089	14,659
Unallocated assets:				
Cash and cash equivalents				126
Financial assets				98
Total assets				14,883
Segment liabilities	698	2,426	250	3,374
Unallocated liabilities				
Income and other taxes payable				251
Borrowings				4,042
Net assets attributable to participants				7,216
Total liabilities				14,883
Capital expenditure	828	2,879	298	4,005

The segment assets and liabilities as at 31 December 2004 and capital expenditure for the year then ended are as follows:

	Oilfield process chemicals	*De-icing agents*	*Other*	*Company*
Segment assets	1,433	5,302	327	7,062
Unallocated assets:				
Cash and cash equivalents				721
Financial assets				132
Total assets				7,915
Segment liabilities	241	891	54	1,186
Unallocated liabilities				
Income and other taxes payable				96
Borrowings				837
Net assets attributable to participants				5,796
Total liabilities				7,915
Capital expenditure	32	119	7	159

(in thousands of US$ unless otherwise stated)

The segment assets and liabilities as at 31 December 2003 and capital expenditure for the period then ended are as follows:

	Oilfield process chemicals	*De-icing agents*	*Other*	*Company*
Segment assets	624	4,320	339	5,283
Unallocated assets:				
Cash and cash equivalents				117
Financial assets				–
Total assets				5,400
Segment liabilities	88	608	48	744
Unallocated liabilities				
Income and other taxes payable				298
Borrowings				–
Net assets attributable to participants				4,358
Total liabilities				5,400
Capital expenditure	20	140	11	171

The segment assets and liabilities as at 31 December 2002 and capital expenditure for the period then ended are as follows:

	Oilfield process chemicals	*De-icing agents*	*Other*	*Company*
Segment assets	48	3,530	283	3,862
Unallocated assets:				
Cash and cash equivalents				115
Financial assets				–
Total assets				3,976
Segment liabilities	5	355	28	388
Unallocated liabilities				
Income and other taxes payable				173
Borrowings				–
Net assets attributable to participants				3,415
Total liabilities				3,976
Capital expenditure	29	2,149	173	2,351

Segment assets consist primarily of property, plant and equipment, inventories and receivables. They exclude cash and financial assets.

Segment liabilities comprise operating liabilities. They exclude items such as taxation, corporate borrowings and net assets attributable to participants.

Secondary reporting format – geographical segment

The company sells its products to the customers located in two main geographical segments: domestic sales and export sales. Sales in domestic market are to the customers located in the Russian Federation, where export sales are to the customers located mainly in the Netherlands, Canada, USA and CIS countries. The risks and rewards of selling to the Netherlands, Canada and the USA are deemed to be similar and so have been included as a single geographical segment. Sales to CIS countries are less than 10 per cent. and so have also been included in this segment.

(in thousands of US$ unless otherwise stated)

Sales

	Domestic	*Export*	*Company*
Period ended 30 September 2005	10,674	4,296	14,970
Period ended 30 September 2004	8,608	3,495	12,103
Year ended 31 December 2004	12,921	4,242	17,163
Year ended 31 December 2003	8,248	1,719	9,967
Period ended 31 December 2002	2,439	31	2,470

Sales are allocated based on the country in which the customer is located.

All assets and capital expenditure are located in the Russian Federation.

5. Balances and transactions with related parties

For the purposes of this financial information, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24 "Related Party Disclosures". In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be affected on the same terms, conditions and amounts as transactions between unrelated parties.

The nature of the related party relationships for those related parties with whom the Company entered into significant transactions or had significant balances outstanding at each reporting period balance sheet date are detailed below.

(in thousands of US$ unless otherwise stated)

(i) Balances with related parties:

Balance sheet caption	*Relationship*	*30 September 2005*	*31 December 2004*	*31 December 2003*	*31 December 2002*
Accounts receivable from and prepayments to					
Evroles LLC	Shareholder	26	16	22	87
Global Specialty Chemicals Ltd	Shareholder	–	77	–	31
JSC Kaustik	Shareholder	1,846	388	98	1
Kaustik TD LLC	Under common control	–	4	–	–
JSC Kaustik PT	Under common control	–	1	–	–
European Chemical Company LLC	Under common control	4	–	–	–
		1,876	486	120	119
Accounts payable to					
JSC Kaustik	Shareholder	1,637	98	56	125
JSC Kaustik PT	Under common control	–	–	–	–
Evroles LLC	Shareholder	–	–	19	5
Kaustik TD LLC	Under common	3	–	–	–
European Chemical Company LLC	Under common	6	–	–	–
		1,646	98	75	130
Loan provided to					
Nikohim LLC	Under common control	130	54	–	–
		130	54	–	–
Financial assets at fair value through profit or loss purchased from					
NIKOS finance corporation LLC	Under common control	98	132	–	–
		98	132	–	–
Bank borrowings provided by					
Inkarobank	Under common control	702	–	–	–
		702	–	–	–

(in thousands of US$ unless otherwise stated)

(ii) Transactions with related parties:

Income statement caption	*Relationship*	*9 months ended 30 September 2005*	*9 months ended 30 September 2004*	*Year ended 31 December 2004*	*Year ended 31 December 2003*	*Year ended 31 December 2002*
Revenue from transactions with						
Global Specialty Chemicals Ltd	Shareholder	1	878	978	1,678	31
JSC Kaustik	Shareholder	225	177	238	218	107
Evroles LLC	Shareholder	25	14	36	41	103
Kaustik TD LLC	Under common control	–	–	3	–	–
European Chemical Company LLC	Under common control	3	–	–	–	–
		254	1,069	1,255	1,937	241
Inventory purchases						
JSC Kaustik	Shareholder	6,786	6,473	8,707	5,969	1,211
Evroles LLC	Shareholder	31	30	90	114	115
Mineral Kaustik LLC	Under common control	–	1	1	–	–
European Chemical Company LLC	Under common control	24	–	–	–	–
		6,841	6,504	8,798	6,083	1,326
Production services purchases						
JSC Kaustik	Shareholder	464	306	484	129	48
		464	306	484	129	48
Statement of Cash Flows caption	*Relationship*					
Construction of Property, plant and equipment						
JSC Kaustik	Shareholder	1,471	54	72	28	1,589
Evroles LLC	Shareholder	–	–	–	–	175
		1,471	54	72	28	1,764
Acquisition of building						
JSC Kaustik	Shareholder	2,903	–	–	–	–
		2,903	–	–	–	–
Loan provided to						
Nikohim LLC	Under common control	78	–	–	–	–
		78	–	–	–	–
Financial assets at fair value through profit or loss						
Promissory notes purchased from FK NIKOS finance corporation LLC	Under common control	1,801	–	–	–	–
Promissory notes presented for payment to FK NIKOS finance corporation LLC	Under common control	(1,831)	–	–	–	–
		(30)	–	–	–	–
Bank borrowings provided by						
Inkarobank	Under common control	1,440	–	–	–	–
		1,440	–	–	–	–

The volume of goods sold in the period ended 30 September 2005 was 60,783 tonnes (in the period ended 30 September 2004: 53,593 tonnes, year ended 31 December 2004: 74,459 tonnes, year ended 31 December 2003: 53,643 tonnes, period ended 31 December 2002: 12,079 tonnes) of which 86 tons were sold to related parties (in the period ended 30 September 2004: 5,497 tonnes, year ended 31 December 2004: 6,097 tonnes, year ended 31 December 2003: 13,750 tonnes, period ended 31 December 2002: 895 tonnes). All sales between the Company and its related parties are at the market prices current at the time of sales.

All inventory purchases made by the Company from its related parties are based on the market prices current at the time of sales.

Revenue from transactions with JSC Kaustik arose mainly from the lease of production equipment which ceased from 1 October 2005. Prior to 1 October 2005, Kaustik employees operated the production equipment and finished goods were sold to the Company.

The loans were provided to "Nikohim" LLC on 16 December 2004 (RR1,500 thousand (US$51 thousand)), on 25 April 2005 (RR900 thousand (US$32 thousand)) and on 26 July 2005 (RR1,300 thousand (US$496 thousand)) for the period of one year and bear interest at 0.5 per cent. per annum.

All promissory notes were purchased and sold at fair value. The notes were initially purchased to fund the acquisition of the building and equipment from JSC Kaustik (refer below). The bank borrowing from Inkarobank was subsequently secured for this acquisition and so the notes were repaid.

The bank borrowing was provided by Inkarobank on 29 June 2005 (RR10,000 thousand (US$354 thousand)), on 5 July 2005 (RR10,000 thousand (US$354 thousand)), on 8 September 2005 (RR14,000 thousand (US$496 thousand)), on 9 September 2005 (RR6,000 thousand (US$213 thousand)) with interest of 14 per cent. per annum. Loans outstanding as at 30 September are due for repayment on 25 November 2005.

In April 2005 the Company sold the debt of RR11,000 thousand (US$390 thousand) from JSC "Alf-Plus" and the rights to collect any late payments interest to "Evroles" LLC (a minority shareholder) for consideration of RR10,970 thousand (US$389 thousand). On 25 April 2005 the consideration was paid in full.

On 15 July 2005 the Company signed an agreement with JSC Kaustik to acquire equipment for the production of calcium chloride for a consideration of US$1,708 thousand. The value of the acquired equipment was determined by a non-related local valuation firm. The remaining liability under this agreement as at 30 September 2005 is RR46,428 (US$1,646 thousand) (Note 12).

On 5 September 2005 the Company signed an agreement with JSC Kaustik to acquire a building, where the equipment for the production of calcium chloride purchased is located. The purchase price of US$2,892 thousand is in the range determined by a non-related local valuation firm. In accordance with the agreement the purchase price was prepaid in full at the agreement sign-off date. The building was acquired by the Company prior to 30 September 2005 and the documents for registration the building have been submitted to state authorities.

On 28 September 2005 the Company signed an agreement with JSC Kaustik to purchase raw materials for the production of calcium chloride. The full consideration of RR50,000 thousand (US$1,754 thousand) was prepaid to JSC Kaustik on 28 September 2005 (Note 7). The corresponding raw materials were not received by the Company as of the date of this financial information.

(iii) Balances and transactions with related parties – Key management personnel compensation

Compensation paid to key management personnel for their services in full or part time executive management positions is made up of a contractual salary and a performance bonus depending on operating results. Discretionary bonuses may be also payable to directors, which are approved by the shareholders' meeting, provided the Company has made a statutory profit for the year. The total compensation paid to two directors (for the period ended 30 September 2004 – two directors) amounted to US$152 thousand for the period ended 30 September 2005 (for the period ended 30 September 2004: US$167 thousand, year ended 31 December 2004: US$247 thousand, year ended 31 December 2003: US$80 thousand, period ended 31 December 2002: US$1 thousand) included in general and administrative expenses in the statement of income. There are no long-term compensation plans, post-employment benefits, termination benefits or shore based payments.

(in thousands of US$ unless otherwise stated)

6. Cash and cash equivalents

	30 September 2005	*31 December 2004*	*31 December 2003*	*31 December 2002*
RR denominated cash on hand and balances with banks	106	696	110	115
Foreign currency denominated balances with banks	20	25	7	–
	126	721	117	115

There are no restrictions on the cash balances held.

Cash and bank overdrafts include the following for the purposes of the statement of cash flows:

	30 September 2005	*31 December 2004*	*31 December 2003*	*31 December 2002*
Cash	126	721	117	115
Bank overdrafts (Note 13)	(183)	–	–	–
	(57)	721	117	115

7. Accounts receivable and prepayments

	30 September 2005	*31 December 2004*	*31 December 2003*	*31 December 2002*
Trade receivables	3,042	1,708	529	357
Receivables from related parties (Note 5)	1,876	486	120	119
Advances to suppliers	433	506	620	422
Less: Provision for doubtful debts	(10)	(10)	–	–
Loans to related parties (Note 5)	130	54	–	–
	5,471	2,742	1,269	898

US$1,634 thousand, US$1,315 thousand, US$3 thousand and US$31 thousand of trade receivables are denominated in foreign currency, mostly in US dollars, as at 30 September 2005, 31 December 2004, 2003 and 2002 respectively.

In 2002-2004, advances to suppliers include a prepayment to JSC Alf-Plus of RR11,000 (US$397 thousand) for the purchase of property, plant and equipment. Subsequently the Company abandoned these services and requested a refund of the prepayment made. The debt was subsequently sold to Evroles LLC, a related party, as disclosed in Note 5.

US$1,754 thousand was prepaid to OAO Kaustik for the purpose of purchasing inventory in accordance with contract signed on 28 September 2005 (Note 5).

(in thousands of US$ unless otherwise stated)

8. Inventories

	30 September 2005	*31 December 2004*	*31 December 2003*	*31 December 2002*
Materials and consumables	348	290	239	155
Finished products	304	234	170	–
	652	524	409	155

As at 30 September 2005, bank borrowings are secured on inventory for the net realisable value of US$652 thousand (31 December 2004: US$85 thousand).

In the period ended 30 September 2005, US$1 thousand of inventory was written off (year ended 31 December 2004: US$7 thousand, year ended 31 December 2003: US$Nil, period ended 31 December 2002: US$Nil) following inventory counts performed by management.

9. Other current assets

	30 September 2005	*31 December 2004*	*31 December 2003*	*31 December 2002*
Prepaid taxes and contributions to non-budgetary funds (a)	327	330	24	–
Deferred expenses	70	39	14	–
Receivables from the Company's personnel	34	25	20	–
Other	6	3	9	1
	437	397	67	1

(a) The non-budgetary fund is a state authority which collects Unified Social Tax based on wages and salaries of employees.

(in thousands of US$ unless otherwise stated)

10. Property, Plant and Equipment

	Buildings	*Vehicles*	*Plant and equipment*	*Assets under construction*	*Total*
Cost					
Balance at 7 February 2002	–	–	–	–	–
Additions	–	–	1,273	1,078	2,351
Balance at 31 December 2002	–	–	1,273	1,078	2,351
Accumulated depreciation					
Balance at 7 February 2002	–	–	–	–	–
Depreciation charge	–	–	34	–	34
Balance at 31 December 2002	–	–	34	–	34
Net book value					
Balance at 7 February 2002	–	–	–	–	–
Balance at 31 December 2002	–	–	1,239	1,078	2,317

	Buildings	*Vehicles*	*Plant and equipment*	*Assets under construction*	*Total*
Cost					
Balance at 31 December 2002	–	–	1,273	1,078	2,351
Additions	–	–	15	156	171
Translation difference	–	–	104	100	204
Balance at 31 December 2003	–	–	1,392	1,334	2,726
Accumulated depreciation					
Balance at 31 December 2002	–	–	34	–	34
Depreciation charge	–	–	134	–	134
Balance at 31 December 2003	–	–	168	–	168
Net book value					
Balance at 31 December 2002	–	–	1,239	1,078	2,317
Balance at 31 December 2003	–	–	1,224	1,334	2,558

	Buildings	*Vehicles*	*Plant and equipment*	*Assets under construction*	*Total*
Cost					
Balance at 31 December 2003	–	–	1,392	1,334	2,726
Additions/(transfers)	1,300	24	201	(1,367)	159
Translation difference	(1)	–	62	74	135
Balance at 31 December 2004	1,299	24	1,655	41	3,019
Accumulated depreciation					
Balance at 31 December 2003	–	–	168	–	168
Depreciation charge	26	2	165	–	193
Balance at 31 December 2004	26	2	333	–	361
Net book value					
Balance at 31 December 2003	–	–	1,224	1,334	2,558
Balance at 31 December 2004	1,273	22	1,322	41	2,658

NOTES TO THE FINANCIAL INFORMATION *(continued)*
(in thousands of US$ unless otherwise stated)

	Buildings	*Vehicles*	*Plant and equipment*	*Assets under construction*	*Total*
Cost					
Balance at 31 December 2004	1,299	24	1,655	41	3,019
Additions	2,460	6	1,487	52	4,005
Disposals	–	(3)	–	–	(3)
Translation difference	(35)	(1)	(35)	(1)	(72)
Balance at 30 September 2005	3,724	26	3,107	92	6,949
Accumulated Depreciation					
Balance at 31 December 2004	26	1	333	–	360
Depreciation charge					
Disposals	35	3	169	–	207
Balance at 31 September 2005	61	4	502	–	567
Net book value					
Balance at 31 December 2004	1,273	22	1,322	41	2,658
Balance at 31 September 2005	3,663	22	2,605	91	6,382

Bank borrowings are secured on buildings, plant and equipment for a value of US$3,409 thousand (31 December 2004: US$1,018 thousand).

The gross carrying value of fully depreciated items at the end of all the above periods was US$Nil.

In the period to 30 September 2005, borrowing costs of US$77 thousand were capitalised within fixed assets. No borrowing costs were capitalised in previous periods.

11. Financial assets held at fair value through profit or loss

	30 September 2005	*31 December 2004*	*31 December 2003*	*31 December 2002*
Beginning of the period	132	–	–	–
Additions	1,783	132	–	–
Disposals	(1,768)	–	–	–
Translation difference	(49)	–	–	–
End of the period	98	132	–	–

Financial assets at fair value through profit or loss include the following:

	30 September 2005	*31 December 2004*	*31 December 2003*	*31 December 2002*
Interest free related party promissory notes (note 5)	98	132	–	–
	98	132	–	–

(in thousands of US$ unless otherwise stated)

12. Accounts payable and accrued charges

	30 September 2005	*31 December 2004*	*31 December 2003*	*31 December 2002*
Trade payables and accrued charges	1,560	898	517	201
Amounts due to related parties (Note 5)	1,646	98	75	130
Payables to the Company's personnel	32	6	9	2
	3,238	1,002	601	333

13. Borrowings

	30 September 2005	*31 December 2004*	*31 December 2003*	*31 December 2002*
Current				
Bank overdrafts (note 6)	183	–	–	–
Bank borrowings	2,821	837	–	–
	3,004	837	–	–

	30 September 2005	*31 December 2004*	*31 December 2003*	*31 December 2002*
Non-current				
Bank borrowings	1,038	–	–	–
	1,038	–	–	–

The maturity profile of non-current borrowings is between 1 and 2 years.

The interest rates at the balance sheet dates were as follows:

	30 September 2005		*31 December 2004*	
	Rate	*Amount*	*Rate*	*Amount*
Gazprombank (overdraft)	10.5%	183	–	–
Gazprombank	13%	684	13%	837
Gazprombank	15%	2,473	–	–
Inkarobank (Note 5)	14%	702	–	–
		4,042		837

Total borrowings include secured liabilities on property, plant and equipment (Note 10) and inventory (Note 8) at 30 September 2005 of US$4,117 thousand (31 December 2004: US$837 thousand).

The carrying amount of the borrowings approximate their fair value.

(in thousands of US$ unless otherwise stated)

14. Other taxes payable

	30 September 2005	*31 December 2004*	*31 December 2003*	*31 December 2002*
Value-added tax	228	77	216	74
Property and other taxes	23	19	25	22
	251	96	241	96

Value-added tax of US$228 thousand as at 30 September 2005 (31 December 2004: US$77 thousand, 31 December 2003: US$109 thousand, 31 December 2002, US$74 thousand) is payable to tax authorities when payments are received from customers or if relevant receivable balances are written-off.

15. Net assets attributable to participants

The charter capital of the Company consists of registered, issued and fully paid equity units for the total par value of RR 105,573 thousand. The contribution premium represents a foreign exchange difference related to the capital contribution made by Global Specialty Chemicals Ltd in foreign currency (US dollars).

The participants' contribution in the Company's share capital at the end of each reporting period was as follows:

	30 September 2005		*31 December 2004*	
Participant's name	*US$'000*	*Share*	*US$'000*	*Share*
Global Speciality Chemicals Ltd	–	–	1,842	51%
Evroles LLC	–	–	866	25%
Kaustik JSC	–	–	902	24%
Erith Group Limited	2,983	85%	–	–
Valery Yurievich Andosov	526	15%	–	–
	3,509	100%	3,610	100%
Inflation adjustment	195		200	
	3,704		3,810	

	31 December 2003		*31 December 2002*	
Participant's name	*US$'000*	*Share*	*US$'000*	*Share*
Global Speciality Chemicals Ltd	1,746	51%	1,599	51%
Evroles LLC	855	25%	783	25%
Kaustik JSC	821	24%	752	24%
	3,422	100%	3,134	100%
Inflation adjustment	189		172	
	3,611		3,306	

The Company is a limited liability company. For such companies, voting rights of participants are determined by their percentage participation in the registered share capital. Each participant has the right to withdraw their share of the Company's assets upon giving appropriate notice, which generally cannot be less than one year. There have been no applications for redemption at the latest balance sheet date.

(in thousands of US$ unless otherwise stated)

The Company's obligations to redeem the Company's participating interests is measured at the present value of the redemption amount. The redemption amount for the Company's shares is variable and depends on the Company's statutory net assets. As a practical expedient the Company measured the liability at the participants' share of net assets.

Dividends

No dividends have been proposed or paid in any of the reporting periods.

16. Income tax

	9 months ended 30 September 2005	*9 months ended 30 September 2004*	*Year ended 31 December 2004*	*Year ended 31 December 2003*	*Period ended 31 December 2002*
Income tax expense	(592)	(345)	(428)	(224)	(82)
Deferred tax	19	11	7	(2)	(24)
Income tax	(573)	(334)	(421)	(226)	(106)

Income before taxation for financial reporting purposes is reconciled to tax expense as follows:

	9 months ended 30 September 2005	*9 months ended 30 September 2004*	*Year ended 31 December 2004*	*Year ended 31 December 2003*	*Period ended 31 December 2002*
Income before taxation	2,169	1,324	1,575	812	214
Theoretical tax charge at statutory rate of 24%	(521)	(318)	(378)	(195)	(51)
Tax effect of items which are not deductible or assessable for taxation purposes	(52)	(16)	(43)	(31)	(55)
Income tax for financial reporting purposes	(573)	(334)	(421)	(226)	(106)

In all the above reporting periods, the Company's taxable profit was subject to tax at 24 per cent. and deferred tax assets/liabilities are calculated at this rate. The net effect of the change on deferred tax balances recognised at the balance sheet dates are reflected in the income statement for the periods then ended.

	30 September 2005	*Differences recognition and reversals*	*31 December 2004*	*Differences recognition and reversals*
Tax effect of deductible and taxable temporary differences:				
Property, plant and equipment	(23)	3	(26)	1
Inventory	(3)	2	(5)	(3)
RAR audit expenses	25	16	9	9
Accounts receivable	1	(2)	3	–
Total net deferred tax liability	–	19	(19)	7

(in thousands of US$ unless otherwise stated)

	31 December 2003	*Differences recognition and reversals*	*31 December 2002*	*Differences recognition and reversals*
Tax effect of deductible and taxable temporary differences:				
Property, plant and equipment	(27)	(1)	(26)	(26)
Inventory	(2)	(4)	2	2
RAR audit expenses	–	–	–	–
Accounts receivable	3	3	–	–
Total net deferred tax liability	(26)	(2)	(24)	(24)

17. Significant non-cash transactions

The following amounts included within sales relate to non-cash transactions:

	9 months ended 30 September 2005	*9 months ended 30 September 2004*	*Year ended 31 December 2004*	*Year ended 31 December 2003*	*Period ended 31 December 2002*
Non cash transactions	259	238	318	298	181

Non-cash transactions primarily represent amounts in relation to provision of production facilities to JSC Kaustik in exchange for production services and have been excluded from the cash flow statement.

18. Revenue

	9 months ended 30 September 2005	*9 months ended 30 September 2004*	*Year ended 31 December 2004*	*Year ended 31 December 2003*	*Period ended 31 December 2002*
Calcium Chloride	11,222	9,645	13,333	9,039	2,156
IceMelt	3,484	2,244	3,487	684	134
Other income	264	214	343	244	180
	14,970	12,103	17,163	9,967	2,470

19. Cost of sales

	9 months ended 30 September 2005	*9 months ended 30 September 2004*	*Year ended 31 December 2004*	*Year ended 31 December 2003*	*Period ended 31 December 2002*
Materials and components used	6,603	5,881	8,120	5,523	1,093
Packing materials	738	588	853	502	78
Production services	464	306	484	129	48
Changes in inventories of finished goods and work in progress	(65)	(41)	(36)	(119)	–
Other	552	129	289	284	155
	8,292	6,863	9,710	6,319	1,374

NOTES TO THE FINANCIAL INFORMATION *(continued)*
(in thousands of US$ unless otherwise stated)

20. Distribution costs

	9 months ended 30 September 2005	*9 months ended 30 September 2004*	*Year ended 31 December 2004*	*Year ended 31 December 2003*	*Period ended 31 December 2002*
Transportation	3,264	2,859	4,349	2,159	546
Other	232	233	235	185	146
	3,496	3,092	4,584	2,344	692

21. General and administrative expenses

	9 months ended 30 September 2005	*9 months ended 30 September 2004*	*Year ended 31 December 2004*	*Year ended 31 December 2003*	*Period ended 31 December 2002*
Wages	395	370	573	184	7
Consultancy, marketing and legal services	221	109	224	122	86
Unified social tax	56	52	89	39	2
Other	250	232	328	136	92
	922	763	1,214	481	187

22. Costs and expenses by nature

	9 months ended 30 September 2005	*9 months ended 30 September 2004*	*Year ended 31 December 2004*	*Year ended 31 December 2003*	*Period ended 31 December 2002*
Materials and components used	6,603	5,881	8,120	5,523	1,093
Transportation	3,621	2,859	4,349	2159	546
Packing materials	738	588	853	502	78
Changes in inventories of finished goods and work in progress	(65)	(41)	(36)	(119)	–
Production services	464	306	484	129	48
Wages	472	409	573	223	9
Other	877	716	1,165	727	479
Total costs and expenses	12,710	10,718	15,508	9,144	2,253

23. Auditors' remuneration

Auditors' remuneration for each period was as follows:

	9 months ended 30 September 2005	*Year ended 31 December 2004*	*Year ended 31 December 2003*	*Period ended 31 December 2002*
Audit services	149	32	36	35
Non-audit services	15	–	–	–
Total	164	32	36	35

24. Contingencies, commitments and operating risks

(i) Contractual commitments and guarantees

As at 30 September 2005, the Company had a contractual arrangement to acquire plant and equipment from JSC Kaustik (Note 5) and secured its borrowings over inventory and fixed assets (Note 8 and 10 respectively).

(ii) Insurance

The Company holds insurance policies to cover risks related to its export shipments and transportation of goods to the customers. Property, plant and equipment are not insured, except for those which are pledged as collateral (Note 10) and the Company's vehicles.

(iii) Taxation

Russian tax, currency and customs legislation is subject to varying interpretations and changes which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activities of the Company may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretation of the legislation, and it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

As at 30 September 2005 management believes that its interpretation of the relevant legislation is appropriate and the Company's tax, currency and customs positions will be sustained.

(iv) Environmental matters

The enforcement of environmental regulation in Russian Federation is evolving. The Company periodically evaluates its obligations related to environmental pollution. As obligations are determined for which it is probable that a liability may arise, a provision recognised immediately. Potential liabilities, which may arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage.

(v) Legal proceedings

During all periods to 31 December 2004, the Company was not involved in any court proceedings (either as plaintiff or a defendant) arising in the ordinary course of business.

On 20 March 2005 the tax authorities of the Volgograd region completed its VAT examination for the period from 14 February 2002 to 31 March 2004. As a result of the examination the tax authority did not allow recovery of US$260 thousand of input VAT. The assessment was made on the grounds that the Company may not claim the recovery of input VAT on acquired immovable property, plant and equipment until the corresponding property is registered with the relevant authorities. Management disagrees with the tax authorities and believes that these facilities represent production equipment that cannot be treated as immovable property and therefore the title to it is not subject to the state registration. Given that the recoverability of the VAT is not disputed, but the timing of the recoverability, the tax authorities assessed a penalty of US$43 thousand and late payment interest of US$36 thousand to be paid by the Company.

On 20 June 2005 the Company lost the first court hearing and submitted an appeal on 19 July 2005. On 18 September 2005 the Company had a successful second court hearing. However the tax authorities may appeal within three months from the date of the second court hearing (till 18 December 2005). If the final decision is in favour of the tax authorities there is a possible risk that the authorities may challenge the deductibility of the related depreciation expense for income tax purposes and assess additional income tax and related penalties and late payment interest in the amount of US$14 thousand.

Management believes that the Company will defend its position and that there will be no material effect on the statement of income or balance sheet of the Company. Therefore there are no provisions recorded as at 30 September 2005.

(vi) Operating environment of the Company

Whilst there have been improvements in economic trends in the country, the Russian Federation continues to display certain characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible in most countries outside of the Russian Federation, restrictive currency controls, and relatively high inflation. The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations, and changes, which can occur frequently.

The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory, and political developments.

25. Financial risks

(i) Credit risk

Financial assets, which potentially subject the Company to credit risk, consist principally of trade receivables. The Company has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history. The carrying amount of accounts receivable, net of provision for impairment of receivables, represents the maximum amount exposed to credit risk. The Company has no significant concentrations of credit risk. Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Company beyond the provision already recorded.

Cash is placed in financial institutions, which are considered at time of deposit to have minimal risk of default.

(ii) Foreign exchange risk

The Company sells its products on a global market, including exports to North American and European countries and therefore is exposed to foreign exchange risk. Foreign currency denominated assets (accounts receivable) give rise to potential, foreign exchange exposure. The Company does not have formal arrangements to mitigate foreign exchange risks of the Company's operations.

(iii) Interest rate risk

The Company's income and operating cash flows are substantially independent of changes in market interest rates. The Company is exposed to interest rate risk through market fluctuations of borrowings. Interest rates on borrowings are fixed and disclosed in Note 13.

(iv) Liquidity risk

Trading activities of the Company are mainly financed with short-term borrowings and trade payables. Management's continuing efforts to improve the Company's liquidity position concentrate primarily on matching the long-term financing with capital expenditure.

26. Events after the balance sheet date

On 1 October, 2005 the Company employed 188 employees from JSC Kaustik to operate the plant and equipment acquired from JSC Kaustik (Note 5).

The Company's shareholders entered into a Sale and Purchase Agreement with Zirax plc, a company incorporated in the United Kingdom, on 28 October 2005 for the sale of the entire equity interest in Global-Kaustik for the consideration of the RR equivalent (computed at the official exchange rate of the Russian Central Bank) of £2,900,000. Following this transaction, Zirax plc became the immediate parent company of Global-Kaustik.

PART IV

UNAUDITED PRO FORMA STATEMENT OF NET ASSETS

Basis of preparation

The unaudited pro forma financial information set out below has been prepared to illustrate the effect on the combined net assets of Zirax Plc and Global-Kaustik LLC, as if the anticipated initial purchase offering had occurred as at 30 September 2005.

The information, which is produced for illustrative purposes only, by its nature addresses a hypothetical situation and therefore does not represent the actual financial position of the companies. No adjustments have been made to reflect any transactions other than as set out in the unaudited pro forma financial information.

The amounts in respect of Zirax plc and Global-Kautik LLC in the unaudited pro forma financial information were extracted from the historical financial information as set out in Part III of this document.

This unaudited financial information is based on estimates and assumptions deemed appropriate by Zirax plc and is presented for illustrative purposes only. Such information should not be relied upon as an indication of the amount of proceeds that Zirax plc will raise through the initial public offering.

Zirax plc

Unaudited Pro forma Statement of Net Assets
(in thousands of US$ unless otherwise stated)

	Zirax plc	*Global Kaustik LLC*	*Adjustment (a)*	*Pro forma*
ASSETS				
Current assets				
Cash and cash equivalents	176	126	11,115	11,417
Accounts receivable and prepayments	–	5,471	–	5,471
Financial assets	–	98	–	98
Inventories	–	652	–	652
VAT recoverable	–	1,717	–	1,717
Other current assets	458	437	–	895
Total current assets	634	8,501	11,115	20,250
Non-current assets				
Property, plant and equipment	–	6,382	–	6,382
Total non-current assets	–	6,382	–	6,382
Total assets	634	14,883	11,115	26,632
LIABILITIES				
Current liabilities				
Accounts payable and accrued charges	(458)	(3,238)	–	(3,696)
Income taxes payable	–	–	–	–
Other taxes payable	–	(251)	–	(251)
Borrowings	–	(3,004)	–	(3,004)
Advances received	–	(134)	–	(134)
Total current liabilities	(458)	(6,627)		(7,085)
Non-current liabilities				
Long-term borrowings	–	(1,038)	–	(1,038)
Deferred tax liabilities	–	(3)	–	(3)
Total liabilities	(458)	(7,668)	–	(8,126)
NET ASSETS	176	7,215	11,115	18,506

(a) Adjustment to the pro forma financial information

The adjustment to the pro forma financial information reflects the proceeds net of costs associated with the fund raising that are expected from the initial public offering.

PART V

ADDITIONAL INFORMATION

1. The Company

1.1 Zirax was incorporated and registered in England and Wales on 11 August 2005 under the Act as a public limited company with the name Zirax plc and its registered number is 5533825. The principal legislation under which Zirax operates is the Act (under which the Ordinary Shares have been created) and the regulations made thereunder.

1.2 The principal purpose of Zirax is to hold Global-Kaustik as a wholly owned subsidiary and to act as a holding company for the expansion of the Group's worldwide activities.

1.3 On 16 September 2005, the Registrar of Companies issued Zirax with a certificate under section 117 of the Act entitling it to commence business.

1.4 Zirax's registered office at 51 Eastcheap, London EC3M 1JP. The liability of Zirax's members is limited.

1.5 Zirax is a member of a group. Erith, a company incorporated in the British Virgin Islands (registration number 587367), holds 85 per cent. of the issued Ordinary Shares immediately prior to the Placing. Erith is beneficially owned in equal shares by Mr Baranov and Mr Azizov, who are non-executive chairman and general director of Kaustik, respectively. The remaining 15 per cent. of the issued Ordinary Shares immediately prior to the Placing is held by Mr Andosov. On Admission, Erith's and Mr Andosov's percentage share interests in Zirax will be 59.5 and 11.7 respectively. Zirax has one subsidiary, Global-Kaustik, a company incorporated in the Russian Federation (company number 1023404358053).

2. Share Capital

2.1 Zirax was incorporated with an authorised share capital of £5,000,000 divided into 500,000,000 Ordinary Shares of which 8,500,000 and 1,500,000 Ordinary Shares were issued fully paid to Erith and Mr Andosov, respectively, as subscription shares.

On 1 November 2005 a further 17,000,000 and 3,000,000 Ordinary Shares were issued to Erith and Mr Andosov at nominal value for cash for an aggregate subscription price of £200,000. On the same day another 77,031,250 and 13,593,750 Ordinary Shares were issued at a subscription price of 3.2 pence each to Erith and Mr Andosov respectively. The aggregate subscription price of £2.9 million was discharged by way of two set-off agreements (details of which are set out in paragraph 11.9 below).

As of 12 December 2005, Erith holds a total of 102,531,250 Ordinary Shares fully paid up and Mr Andosov holds a total of 18,093,750 Ordinary Shares fully paid up.

2.2 By a special resolution dated 1 November 2005:

(a) the Board was authorised generally and unconditionally pursuant to and in accordance with section 80 of the Act to exercise all the powers of Zirax to allot relevant securities (as defined in section 80 (2) of the Act) up to an aggregate amount of 250,000,000 Ordinary Shares, such authority to expire at the conclusion of the first annual general meeting of Zirax or the date fifteen months from the date on which the resolution was passed, whichever is earlier, save that Zirax may, pursuant to the authority, make offers or agreements before the expiry of the authority which would or might require relevant securities to be allotted after the expiry of such authority, and the Board may allot relevant securities in pursuance of such offers or agreements as if the authority conferred thereby had not expired; and

(b) the Board was empowered, pursuant to section 95 of the Act, to allot equity securities (as defined in section 94(2) of the Act) for cash pursuant to the authority referred to in paragraph 2.2 (a) above as if section 89(1) of the Act did not apply to any such allotment. Such authority is to expire at the conclusion of the first annual general meeting of Zirax or the date fifteen months from the date on which the resolution was passed, whichever is earlier, save that Zirax may before the expiry of such power make offers or agreements which would or might require equity securities to be allotted after the expiry of such power, and the Board may allot equity securities in pursuance of such offers or agreements as if the power conferred thereby had not expired.

2.3 No securities of Zirax are currently in issue with a fixed date on which entitlement to a dividend arises and there are no arrangements in force whereby future dividends are waived or agreed to be waived.

2.4 The Ordinary Shares are not redeemable.

2.5 Save as disclosed in this Part V and apart from the issue of Ordinary Shares pursuant to the Placing:

(a) no share or loan capital of Zirax has since the date of its incorporation been issued or been agreed to be issued, fully or partly paid, either for cash or for a consideration other than cash and no such issue is now proposed;

(b) no commissions, discounts, brokerages or other special terms have been granted by Zirax since the date of its incorporation in connection with the issue or sale of any such share or loan capital; and

(c) no share or loan capital of Zirax is under option or is agreed conditionally or unconditionally to be put under option.

3. Memorandum of Association

The Memorandum of Association of Zirax provides that its principal object (which is set out in clause 4 thereof) is to carry on the business of a holding company and to do all lawful acts and things whatever that are necessary or convenient in carrying on such business. Zirax's objects also allow the Company (*inter alia*) to act as a general commercial company. Zirax's Memorandum of Association is available for inspection at its registered office.

4. Articles of Association

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

4.1 *Voting*

Subject to the provisions of the Act, the Articles and to any special rights or restrictions as to voting attached to any class of shares which may have been issued or may for the time being be held, at any general meeting, every member (being an individual) who is present in person or (being a corporation) is present by a duly authorised representative shall, on a show of hands, have one vote, and on a poll, every member so present in person or by proxy shall have one vote for every Ordinary Share of which he is a holder. A proxy need not be a member of Zirax.

4.2 *Variation of rights*

The rights attached to any class of shares may be varied or abrogated either with the consent in writing of the holders of three-quarters in nominal value of the issued shares of that class or with the sanction of an extraordinary resolution passed at a separate general meeting of the holders of the shares of that class whether while Zirax is a going concern or during, or in contemplation of, a winding-up. At every such separate meeting (except an adjourned meeting) the quorum shall be two persons holding or representing by proxy at least one-third in nominal value of the issued shares of that class.

4.3 *Alteration of capital*

Zirax may by ordinary resolution:

(a) increase its share capital by such sum to be divided into shares of such amounts as the resolution prescribes;

(b) consolidate and divide all or any of its share capital into shares of a larger nominal amount than its existing shares;

(c) cancel any shares which, at the date of the resolution, have not been taken up or agreed to be taken up by any person and diminish the amount of its share capital by the amount of the shares so cancelled; or

(d) sub-divide all or any of its shares into shares of a smaller amount.

Zirax may by special resolution reduce its share capital or any capital redemption reserve, share premium account or other undistributable reserve in any manner authorised by the Act.

4.4 *Dividends*

Subject to the provisions of the Act and the Articles, Zirax may, by ordinary resolution, declare dividends to be paid to members according to their respective rights and interests in the profits of Zirax, but so that no dividend shall exceed the amount recommended by the directors. The directors may pay such interim dividends as appear to them to be justified by the financial position of Zirax. The board may direct that the payment of any dividend may be satisfied by the distribution of assets of any kind, in particular of paid up shares, securities or debentures of any other company. The directors may, with the prior sanction of an ordinary resolution, offer the holders of ordinary shares the right to elect to receive further ordinary shares in Zirax, credited as fully paid, instead of cash in respect of all or part of such dividends. Any dividend unclaimed after a period of 12 years after having become due for payment shall (if the directors so resolve) be forfeited and shall revert to Zirax.

4.5 *Return of Capital*

On a winding up of Zirax the surplus assets available for distribution will be divided among the members in proportion to the amounts paid up on the Ordinary Shares held by them in accordance with the Articles and the Insolvency Act 1986. The liquidator may, with the sanction of an extraordinary resolution of Zirax and subject to the rights of dissenting members, divide among the members in specie the whole or any part of the assets of Zirax. The liquidator may, with like sanction, vest the whole or any part of the assets in trustees upon trust for the benefit of such members as the liquidator shall think fit, but so that no member shall be compelled to accept any such assets on which there is a liability.

4.6 *Transfer of Shares*

Subject to such restrictions of the Articles as may be applicable, a member may transfer all or any of his shares (held in certificated form) by an instrument of transfer in writing in any usual form or in any other form approved by the directors. A transfer shall be executed by or on behalf of the transferor and (if the share is partly paid) by or on behalf of the transferee. The transferor shall be deemed to remain the holder of the shares until the name of the transferee is entered in the register of members in respect thereof. Shares which are held in uncertificated form may be transferred by means of a computer based system and procedures as defined in the Uncertificated Securities Regulations 2001 ("Relevant System") subject to and in accordance with the Regulations and the facilities and requirements of the Relevant System concerned.

Without prejudice to the other provisions of this sub-paragraph 4.6, the directors may, in their absolute discretion and without giving any reason for so doing, refuse to register the transfer of a share which is not fully paid up provided that where partly paid shares are admitted to trading on AIM such a refusal would not prevent dealings in the partly paid shares from taking place on an open and proper basis. The directors may also refuse to register a share on which Zirax has a lien.

The directors may also refuse to register the transfer of a fully paid share (in certificated form) unless:

(a) it is delivered for registration, duly stamped, to the registered office or to such other place as the directors may from time to time determine and is accompanied by the certificate for the shares to which it relates (where a certificate has been issued in respect of the shares) and such other evidence as the directors may reasonably require to prove the title of the transferor and the due execution by him or on his behalf of the transfer;

(b) it is in respect of only one class of share; and

(c) it is in favour of not more than four transferees.

The directors may refuse to register a transfer of a share in uncertificated form to the extent that Zirax is permitted to do so by the Regulations and the requirements of the Relevant System concerned provided that where shares in uncertificated form are admitted to trading on AIM such a refusal would not prevent dealings in the shares in uncertificated form from taking place on an open and proper basis.

There are no rights of pre-emption under the Articles in respect of transfer of issued ordinary shares.

4.7 *Suspension of rights*

If a member or any person appearing to be interested in shares has been duly served with a notice under section 212 of the Act and is in default for the prescribed period in supplying to Zirax the information thereby required, then the directors may serve on such member or on any such person a notice (a "default notice") in respect of the shares in relation to which the default occurred ("default shares") directing that the member shall not be entitled to vote in respect of any shares held by him at any general or class meeting of Zirax.

Where the default shares represent not less than 0.25 per cent. of the shares of the relevant class, the default notice may in addition direct that any dividend or other money payable in respect of the default shares shall be withheld by Zirax without any obligation to pay interest and no transfer of any of the default shares held by the member shall be registered unless the member is not himself in default as regards supplying the information required and the transfer when presented for registration is accompanied by a certificate given by the member in a form satisfactory to the directors to the effect that after due and careful enquiry the member is satisfied that no person in default as regards supplying such information is interested in any of the shares the subject of the transfer or until the shares are transferred or sold in the circumstances set out in the Articles. The prescribed period referred to above means 14 days from the date of service of the notice under section 212.

4.8 *Purchase of own shares*

Zirax may, subject to the sanction of an ordinary or special resolution as the case may require and of an extraordinary resolution passed at a separate class meeting of the holders of any class of convertible shares (no such shares currently being in issue), purchase its own shares (including redeemable shares) in any manner authorised by the Act.

4.9 *Untraced shareholders*

Zirax shall be entitled to sell the shares of a member or the shares to which a person is entitled by transmission if, during a period of 12 years, at least 3 dividends have been paid in relation to such shares during those 12 years and no dividend has been claimed and within a further period of 3 months from the date of advertisements giving notice of its intention to sell such shares placed after the expiry of the period of 12 years, Zirax has not received any communication in respect of such shares from the member or the person entitled to the shares by transmission.

4.10 *General Meetings*

The Board may convene extraordinary general meetings in addition to Zirax's annual general meetings at its discretion. Such meetings may also be convened on a requisition from members no later than 28 days after receipt of such requisition. A general meeting at which a special resolution is proposed to be passed shall be convened by not less than 21 clear days' notice in writing. All other general meetings shall be convened by not less than 14 clear days' notice in writing. The quorum of a general meeting shall be no less than two persons entitled to attend and to vote on the business to be transacted (each being a member, a proxy or a duly authorised representative of a member). The Board may, for the purpose of controlling the level of attendance at any place specified for the holding of a general meeting, from time to time make arrangements in its absolute discretion (for example issuing tickets or some random means of selection) in order to afford all members entitled to attend an equal opportunity of being admitted to that meeting. The entitlement of any member or proxy to attend a general meeting shall be subject to any such arrangements and by the notice of meeting stated to apply to that meeting. The Board may when specifying the place of the general meeting make arrangements for simultaneous attendance and participation at places other than the principal place of such meeting by members entitled to attend that meeting but excluded therefrom.

4.11 *Borrowing powers*

The Board may exercise all the powers of Zirax to borrow money and to mortgage or charge the whole or any part of its undertaking, property and assets (present and future) and uncalled capital and, subject to the provision of the Act, to issue debentures and other securities.

5. Directors' Interests

5.1 As at 12 December 2005 (the latest practicable date prior to the publication of this document) and immediately following the Placing, the interests, all of which are beneficial, of the Directors in the issued share capital of Zirax which:

(a) have been notified to Zirax pursuant to section 324 or under section 328 of the Act; and

(b) are required to be entered in the register maintained under section 325 of the Act; or

(c) are the interests of a person connected with a Director (within the meaning of section 346 of the Act) which, if the connected person were a Director, would be required to be disclosed under (a) and (b) of this paragraph 5.1 and the existence of which is known to the Director or could with reasonable diligence be ascertained by that Director were and will be as follows:

Director	*Number of Ordinary Shares as at the latest practicable date before this Document*	*Percentage of issued ordinary share capital at the latest practicable date before this Document*	*Number of Ordinary Shares immediately following Admission*	*Percentage of issued ordinary share capital immediately following Admission*
Valery Andosov+	18,093,750	15%	20,093,750	11.7%
Mikhail Baranov*	102,531,250	85%	108,197,917	62.8%

+ OOO Yugo-Vostok Promkapital will hold 5,666,667 Ordinary Shares beneficially on behalf of Mr Baranov and 2,000,000 Ordinary Shares on behalf of Mr Andosov following the Placing. Mr Baranov and Mr Andosov are accordingly deemed to be interested in these Ordinary Shares pursuant to Schedule 13, Part I of the Act.

* Erith is the holder of 102,531,250 Ordinary Shares. Mr Baranov is deemed to be interested in these Ordinary Shares pursuant to Schedule 13, Part I of the Act.

5.2 Save as disclosed in paragraph 5.1 above, as at 12 December 2005 (the latest practicable date prior to the publication of this document) none of the Directors nor any person connected with them (within the meaning of section 346 of the Act) had any interest, beneficial or otherwise, in the share capital of Zirax.

5.3 There are no loans or guarantees provided by Zirax for the benefit of any of the Directors nor are there any loans or guarantees provided by any of the Directors for Zirax.

5.4 Save as disclosed in this document, no Director has or has had any interest in any transaction which is or was unusual in its nature or conditions or significant to the business of the Group and which was effected by the Group since Zirax's incorporation or which is or was unusual in its nature or conditions or significant to the business of the Group.

5.5 Save as disclosed in paragraph 5.6 of this Part V, none of the Directors has:

(a) any unspent convictions in relation to indictable offences;

(b) had any bankruptcy order made against him or entered into any voluntary arrangements;

(c) been a director of a company which has been placed in receivership, compulsory liquidation, administration, been subject to a voluntary arrangement or any composition or arrangement with its creditors generally or any class of its creditors whilst he was a director of that company or within the 12 months after he ceased to be a director of that company;

(d) been a partner in any partnership which has been placed in compulsory liquidation, administration or been the subject of a partnership voluntary arrangement whilst he was a partner in that partnership or within the 12 months after he ceased to be a partner in that partnership;

(e) been the owner of any assets of a partner in any partnership which has been placed in receivership whilst he was a partner in that partnership or within the 12 months after he ceased to be a partner in that partnership;

(f) been publicly criticised by any statutory or regulatory authority (including recognised professional bodies); or

(g) been disqualified by a court from acting as a director of any company or from acting in the management or conduct of the affairs of a company.

5.6 Sir Michael Oliver is a director of Hill Samuel UK Emerging Companies Investment Trust plc, a company which is presently under voluntary winding-up at the request of its shareholders.

5.7 None of the Directors (nor any member of any of the Directors' families) has a related financial product (as defined in the AIM Rules) referenced to the Ordinary Shares.

6. Directors' service contracts, remuneration and benefits in kind

6.1 Mr Andosov and Mr Petrushin are executive directors. The details of their respective service agreements with Zirax are set out in paragraph 11.6 in this Part V. Sir Michael Oliver, Mr Baranov and Mr Wood are non-executive Directors.

6.2 The aggregate remuneration paid and benefits in kind granted to the Directors for the period from the date of incorporation of Zirax to Admission amount to nil. The aggregate remuneration and benefits in kind granted to the Directors in respect of the financial year ending 31 December 2005 under the arrangements in force as at the date of this document are expected to amount to £10,500.

7. Additional information on the Directors

7.1 In addition to their directorship of Zirax, the Directors hold or have held the following directorships or have been partners in the following partnerships within the five years prior to the date of this document:

Director	*Current Directorships/ partnerships*	*Directorships/partnerships resigned during the last five years*
Sir James Michael Yorrick Oliver	Hill Samuel UK Emerging Companies Investment Trust plc Garbhaig Hydro Power Company Ltd The Bishopsgate Foundation The Central and European Fund Ltd The European Growth Fund Ltd The Museum of the Port of London and Docklands Goldstone Resources plc Europa Oil & Gas plc Azuran Ltd Icebreaker I LLP	Ferroners Limited Garbhaig Hydro Power (1994) Ltd Highlight Light and Power Ltd Oliver's Wharf (Management) Ltd The Portugal Growth Fund Ltd German Smaller Companies Investment Trust plc The Euro Spain Fund Ltd

Director	*Current Directorships/ partnerships*	*Directorships/partnerships resigned during the last five years*
Valery Yurievich Andosov	Evroles LLC Global Speciality Chemicals Ltd Global-Kaustik LLC	
Mikhail Vladimirovich Baranov	Wharton Associates Ltd Wharton Investment Associates Ltd NIKOCHEM Ltd JSC "Inkarobank" OJSC "Kaustic" JSC "Soligran" OJSC "Poligran" JSC "NIKOS"	JSC Commercial Bank "Kapital-Moskva" OJSC IC "Nikos Finance Corporation" IC "Yugo-Vostok Promcapital" Ltd JSC "Ecoinvent" OJSC "PKK Russkiy Yogurt" JSC "Investtransservis" JSC "Importpischeprom-Transservis" JSC "Yugo-Vostok Chemical Company"
Mikhail Leonidovich Petrushin	None	None
David Thomas Wood	Sanchezwood Ltd Merchant Energy Ltd	None

Save as set out above, the Directors hold or have held no other directorships or been partners in any partnership within the five years preceding the date of this document.

8. Substantial Shareholdings

8.1 As at 12 December 2005 (the latest practicable date prior to the publication of this document), the Directors were aware that the following persons were interested, directly or indirectly, in 3 per cent. or more of the issued share capital of Zirax as at that date:

Name	*No of Ordinary Shares*	*Percentage of issued ordinary share capital*
Valery Andosov	18,093,750	15%
Erith*	102,531,250	85%

*Please refer to paragraph 8.3 below

8.2 So far as the Directors are aware, as at 12 December 2005 (the latest practicable date prior to the publication of this document), the following persons will be interested, directly or indirectly, in 3 per cent. or more of the issued share capital of Zirax immediately following the Placing:

Name	*No of Ordinary Shares immediately following Admission*	*Percentage of issued ordinary share capital immediately following Admission*
Valery Andosov	20,093,750	11.7%
Erith*	108,197,917	62.8%
Pennygold Trading Supplies**	18,000,000	10.5%
OOO Yugo-Vostok Promkapital***	13,333,333	7.7%
Robur Fonder AB	5,229,767	3.0%

*Please refer to paragraph 8.3 below
**Please refer to paragraph 8.4 below
***Please refer to paragraph 8.5 below

8.3 Erith is beneficially owned as to 50 per cent. by each of Mr Baranov and Mr Azizov who are each therefore deemed to be interested in 85 per cent. of the Ordinary Shares prior to Admission and 62.8 per cent. of the Ordinary Shares following Admission by virtue of Schedule 13, Part I of the Act.

8.4 Pennygold Trading Supplies ("Pennygold") will hold 18,000,000 Ordinary Shares immediately following Admission. Pennygold is a company incorporated in the Republic of Ireland, the effective control of which is held by the management of IFC Metropol, an affiliate company of Metropol. Pennygold is an independent entity for the purposes of carrying out investment business and does not have access to market sensitive data through Metropol. For the purposes of carrying on designated investment business Metropol will treat Pennygold as an intermediate customer.

8.5 OOO Yugo-Vostok Promkapital ("Yugo-Vostok") will hold 13,333,333 Ordinary Shares immediately following Admission. Mr Baranov, Mr Azizov and Mr Andosov are all persons deemed to be interested in these Ordinary Shares pursuant to Schedule 13, Part I of the Act.

8.6 Save as disclosed in paragraphs 8.2 of this Part V, the Directors are not aware of any person who was at 12 December 2005 (the latest practicable date prior to the publication of this document) interested, directly or indirectly, or who will, immediately following the Placing have an interest, directly or indirectly, in 3 per cent. or more of the issued capital of Zirax.

8.7 Save as disclosed in this Part V, Zirax is not aware of any person who exercises or could exercise, directly or indirectly, jointly or severally, control over Zirax.

9. Share Incentive Arrangements

9.1. On 12 December 2005 the Board resolved to set up a share option incentive scheme (the "Zirax Option Scheme"). The Zirax Option Scheme is an unapproved scheme for UK tax purposes and it is administered by the directors of Zirax from time to time. The key provisions of the rules of the Zirax Option Scheme (the "Rules") are as follows:

(i) the number of Ordinary Shares which may be placed under option pursuant to the Zirax Option Scheme are limited to 5 per cent. of the issued share capital of the Company;

(ii) options may be granted to a director or a bona fide employee of any company within the Group by a resolution of the Board and will lapse upon the termination of such employment of the grantee;

(iii) the duration of the scheme is 10 years from the date of adoption of the Zirax Option Scheme;

(iv) options may be exercised at any time between 18 months and 5 years after the date of their grant at a price determined by the Board at the time of the grant; and

(v) the Rules contain provisions in respect of a takeover, reconstruction or winding up of Zirax. Options granted under the Zirax Option Scheme may be exercised for 6 months after a takeover. The options may also be exchanged for new options if another company obtains control over Zirax. On voluntary winding-up of Zirax the options may be exercised for 7 days from the date when a notice of the proposed winding-up is given to the option holders.

9.2 On 12 December 2005 the Board granted 861,607 options (representing 0.5 per cent. of the aggregate number of Ordinary and New Ordinary Shares immediately after Admission) under the Zirax Option Scheme to Mr Petrushin to be exercisable at the Placing Price.

10. Working Capital

The Directors are of the opinion, having made due and careful enquiry that, after taking account of bank and other facilities available and the estimated net proceeds of the Placing of not less than US$6 million, Zirax has sufficient working capital for its present requirements that is for at least 12 months from Admission.

11. Material contracts

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

Zirax

11.1 On 25 May 2005 the Company entered into an agreement with Westhouse under which Westhouse agreed to act as the Company's Nominated Adviser and to advise and assist it in respect of the Admission and on an ongoing basis until terminated by either party. The agreement contains indemnities and warranties given by the Company to Westhouse. Westhouse will receive fees equivalent to £150,000 in relation to advice given in respect of Admission and £40,000 per annum thereafter. On 16 September 2005 the obligations and benefits of this agreement were transferred to Zirax by a novation agreement.

11.2 On 25 May 2005 the Company entered into an agreement with Metropol under which Metropol agreed to act as Zirax's broker on an ongoing basis for an initial period of 5 months after which the agreement is automatically renewed on a monthly basis until such time that it is terminated on 30 day's notice by either party. Pursuant to the agreement Metropol agreed to use its reasonable endeavours to procure placees to subscribe for the Placing Shares. The agreement contains indemnities given by the Company to Metropol. Metropol will receive fees equivalent to £30,000 plus 5 per cent. of the aggregate amount of the number of placing Shares multiplied by the Placing Price. If the agreement terminates prior to Admission for reasons of the Company's breach of its terms or the Company having found alternative financing Metropol will be entitled to a maximum abort fee of £50,000.

11.3 On 12 December 2005 Zirax entered into a Placing Agreement with the Directors, Westhouse and Metropol whereby Metropol has conditionally agreed to use its reasonable endeavours (as agent of Zirax) to procure subscribers for the Placing Shares. The agreement is conditional, *inter alia*, upon Admission. Zirax and the Directors have given certain warranties and Zirax has given indemnities as to the accuracy of the information contained in this Document and other matters in relation to Zirax and its proposed business. Under the agreement, Zirax will pay to Westhouse an agreed fee in respect of the application for Admission of £150,000 and will reimburse Westhouse and Metropol their costs and expenses reasonably incurred in relation to the execution of their obligations under the Placing Agreement. In addition, Zirax will pay to Metropol an amount equal to 5 per cent. of the monies raised pursuant to the Placing. Zirax will also be liable for all other costs and expenses of the application for Admission. These fees are not in addition to those set out in paragraphs 11.1 and 11.2.

11.4 On 12 December 2005 Zirax entered into an Option Agreement with the Directors and Westhouse pursuant to which Zirax granted options to Westhouse to subscribe for up to 1,723,214 Ordinary Shares (representing 1 per cent. of Zirax's share capital immediately after Admission) at the Placing Price (the "Option Agreement"). The Option Agreement is conditional upon Admission. The options may be exercised at any time during the period of 5 years from Admission provided that they may not be exercised in more than 4 tranches.

11.5 Under the terms of lock-in agreements entered into with Zirax, Westhouse and Metropol, Mr Andosov and Erith has each undertaken not to dispose of any interest in Ordinary Shares or other securities issued by the Company ("Interest") prior to the first anniversary of Admission without the consent of Westhouse and Metropol such consent not to be unreasonably withheld. Additionally, each Mr Andosov and Erith has subject to certain exceptions (relating to cases of financial hardship, sales to connected parties and family trusts, sales to raise finance to pay liabilities in connection with the Placing and collateralising the interest to raise finance from financial institutions) agreed not to dispose of, or agree to dispose of, any Interest at any time during the period between the first and second anniversaries of the date of Admission unless (i) he has first consulted with Metropol and Westhouse (or the Company's then nominated adviser and broker if Metropol and Westhouse are no longer so appointed) in relation to such disposal or agreement, and (ii) such disposal is effected through Metropol (or the Company's broker from time to time) in such manner as the broker may require with a view to the maintenance of an orderly market in the shares of the Company, provided that the fees, commissions and other terms and conditions to be imposed by such broker are competitive with those offered by other brokers.

In addition, each of Pennygold Trading Supplies, a company incorporated in the Republic of Ireland, and OOO Yugo-Vostok Promkapital, a company existing under the laws of the Russian Federation, which will hold more than 3 per cent. of the issued share capital of Zirax immediately following Admission, have undertaken for a period of 12 months only to dispose of shares through Metropol in such manner as may be reasonably required by Westhouse and Metropol following consultation with Westhouse and Metropol with a view to the maintenance of an orderly market in the Ordinary Shares.

11.6 Letters of Appointment dated 12 December 2005 conditional upon Admission pursuant to the terms of which Sir James Michael Yorrick Oliver, David Thomas Wood and Mikhail Baranov were appointed as Directors for an annual fee of £40,000 in the case of Sir Michael Oliver and £20,000 in the case of Mr Wood and Mr Baranov respectively payable monthly in arrears. The appointments of Sir Michael Oliver and Mr Wood are until the next annual general meeting of Zirax at which they are to resign in accordance with the Articles and Mr Baronov's appointment is for an indefinite term unless terminated by either party. The appointments are terminable on 1 month's notice by either party, or immediately by Zirax if the Directors are in material breach of the terms of their appointment. No compensation is payable by Zirax for loss of office.

11.7 On 12 December 2005 Zirax entered into service contracts with Valery Andosov and Mikhail Petrushin on nearly identical terms (the "Service Contracts"). The remuneration payable pursuant to the Service Contracts is £30,000 in the case of Mr Andosov and £20,000 in the case of Mr Petrushin per annum payable monthly in arrears. The employment of Mr Petrushin by Zirax is subject to an 18 month probationary period which shall expire on 16 May 2007. During the probationary period either party may give to the other not less than 3 months' prior written notice. Thereafter, the Service Agreements may be terminated by either party on 12 months' notice. The Service Contracts contain all provisions which are prescribed by English law as well as confidentiality obligations, IP Rights restriction and post-termination non-compete and non-solicitation restrictive covenants. The service contracts in the case of Mr Andosov and Mr Petrushin also state that the directors are obliged to commit up to 10 working days per month to the activities of Zirax with the remainder of their time being taken up under their employment contract with Global-Kaustik.

11.8 On 28 October 2005 Zirax entered into a share purchase agreements with Mr Andosov and Erith pursuant to which it purchased the entire equity interest in the charter capital of the Company for an aggregate consideration of £2,900,000.

11.9 On 3 November 2005 Zirax entered into two set-off agreements with Mr Andosov and Erith respectively (the "Set-Off Agreements"). Under the Set-Off Agreements Zirax agreed to set off the aggregate £2.9 million purchase price due and payable to Erith and Mr Andosov by Zirax against the called-up but unpaid subscription price due from them to Zirax in respect of the issue of Ordinary Shares described in paragraph 2.1 of Part V of this document.

11.10 On 12 December 2005 Erith undertook by way of deed poll to exercise all its rights and powers as a substantial shareholder to ensure that the Board will be able carry on its business and make operating decisions independently of Erith and that any transactions between Erith or its associates and any company in the Group will be on arms' length.

Global-Kaustik

11.11 On 1 May 2005 Global-Kaustik entered into a sale and purchase agreement with Kaustik for the purchase of the manufacturing assets and factory buildings used in the production of liquid and solid $CaCl_2$ (the "Asset Purchase Agreement"). The purchase price of the assets under the Asset Purchase Agreement was US$ 1,707,729.40 (representing the market value of the assets as determined by an independent valuation report) payable by 1 August 2005. Pursuant to an agreement subsequently reached between the parties payment of the purchase price (save for US$99,688 which had already been paid) has been deferred until the registration of Global-Kaustik's ownership of certain industrial structures with the relevant authorities. The warranties in respect of the assets are not included in the Asset Purchase Agreement but governed by the relevant provisions of the Russian Civil Code. These entitle Global-Kaustik to reduce the price unilaterally, request repairs or replacement or terminate the agreement and claim damages if the assets are defective.

11.12 On 30 May 2005 Global-Kaustik entered into a credit facility agreement with Gazprombank for RUB 120 million to be drawn down in three tranches (the "Credit Facility") for the purposes of purchasing manufacturing plant, equipment and industrial real estate. The term of the Credit Facility is 3 years. Interest is payable at a rate of 15 per cent. which the lender may change unilaterally. During the term of the Credit Facility Global-Kaustik is under an obligation to direct all payments for its products received from customers through its account with the lender and to provide evidence prior to 30 June each year to show that it has entered into contracts for the sale of at least 70MT of its products.

11.13 On 30 May and 24 June 2005 respectively Global-Kaustik entered into two Pledge Agreements as a security for the Credit Facility (the "Pledges"). One of the Pledges relates to land (comparable to a mortgage under English law) and the other one relates to all other assets (comparable to a charge under English law). All property remains at the disposal of Global-Kaustik and can be used in the ordinary course of business. The Pledges contain provisions aimed at protecting the value of the pledged assets, such as insurance and maintenance obligations, a negative pledge and an obligation to inform the lender about any change of control of the Company.

11.14 On 1 September 2005 Global-Kaustik entered into a 20-year term framework agreement with Kaustik for the supply of raw materials and the provision of utilities and services. The prices for the supply of goods and services under the framework agreement and any other contract entered into between the parties pursuant thereto are determined for the first year of its term and subject to review thereafter in accordance with the formula set out therein. Pursuant to this framework agreement the parties executed several one-year agreements for the supply of hydrochloric acid, liquid calcium chloride, lime-milk, hot water, steam, natural gas, settled water, power, maintenance and repair, transport and telecommunications, waste purification and disposal services.

12. Related party matters

12.1 *Related party transactions*

Zirax's agreements described in paragraphs 11.8 and 11.9 above are related party agreements both of which have been entered into on an "arm's length basis". These were approved by resolution of the shareholders passed on 12 December 2005. Zirax is not party to any other related party agreement.

Global-Kaustik's agreements described in paragraphs 11.11 to 11.14 above are also related party agreements both of which have been entered into on an "arm's length basis". Information relating to other related party agreements to which Global-Kaustik has been a party during the period covered by its last two audited financial statements is included in those statements and in Part III of this documents together with their respective values relative to the turnover of the Company.

12.2 *Other related party issues*

Mr Azizov, who is the beneficial owner of 50 per cent. of the shares in Erith, is also the general director of Kaustik and Mr Baranov is Kaustik's non-executive chairman. Each of Mr Azizov and Mr Baranov has a minority shareholding in Kaustik neither of which exceeds 10 per cent. of the issued share capital of Kaustik.

12.3 *Major shareholders*

On 12 December 2005 Erith undertook by way of deed poll to Zirax that it will not exercise its rights as a shareholder with a controlling interest in a manner which would impede or impair the Directors' ability to make independent decisions and that it will not enter into agreements with Zirax otherwise than on an arm's length basis.

13. Litigation

No legal or arbitration proceedings are active, pending or threatened against or being brought by the Group which are having or may have a significant effect on the financial position of the Group and, so far as the Directors are aware, there are no such proceedings pending or threatened by or against the Group.

14. Significant Developments

Save as disclosed in this document, there have been no significant developments or trends concerning the business of the Group since the date of the financial statements of the Group for the period ending 30 September 2005.

15. Intellectual Property

The Group is not dependent on any patents or other intellectual property rights, licences or contracts which are of fundamental importance to its business or profitability. Details of the IP Rights owned and used by the Company are set out in paragraph 10 of Part I of this document.

16. UK Taxation

This section provides a general guide to the UK taxation treatment for certain categories of shareholder under current UK legislation and what is understood to be Her Majesty's Revenue & Customs practice as at the date of this document. It relates to certain limited aspects of the UK taxation position of shareholders who are the absolute beneficial owners of their shares, who are resident or ordinarily resident in the UK for taxation purposes and who hold their shares as an investment (otherwise than under an individual savings account or a personal equity plan). This section does not deal with the position of certain classes of shareholder, including personal representatives, trustees, insurance companies, collective investment schemes, dealers in securities and persons connected with depository arrangements or clearance services. Any shareholder who is in any doubt as to his own taxation position or who is subject to tax in any jurisdiction other than the UK should consult an appropriate professional adviser immediately.

16.1 *Taxation of the Company*

Assuming that Zirax will be managed and operated on the basis that it will be a company resident in the UK for UK tax purposes at all times, Zirax will be liable to UK corporation tax at an effective tax rate between 0 per cent. and 30 per cent. (depending upon the level of Zirax's profits for each accounting period and the level of double taxation relief available).

16.2 *Taxation of dividends*

Under current UK taxation legislation, there is no withholding tax on dividends.

(a) Individual shareholders

Individuals who are UK residents for taxation purposes and who receive a dividend paid by the Company will generally be entitled to receive a tax credit equal to one-ninth of the dividend. The dividend and the associated tax credit (the "Gross Dividend") will be included in determining such individual's marginal rate of tax. Individuals may set off the tax credit (currently 10 per cent. of the Gross Dividend) against their income tax liability. The tax credit will be sufficient to discharge an individual's income tax liability in respect of the Gross Dividend except to the extent that the Gross Dividend is subject to a rate of tax higher than the basic rate in such a case, individuals will be subject to tax at a rate of 22.5 per cent. of the Gross Dividend (after setting off the 10 per cent. tax credit). Tax credits are not repayable to UK resident individual shareholders with no income tax liability.

(b) Corporate shareholders

Corporate shareholders which are UK residents for taxation purposes and which receive a dividend paid by Zirax will generally not be liable to UK corporation tax on the dividend. UK corporate shareholders will not be entitled to claim a refund of any part of the tax credit related to a dividend paid by Zirax.

(c) Non-resident shareholders

Subject to certain exceptions for Commonwealth citizens, residents of the Isle of Man or the Channel Islands and nationals of the European Economic Area (and certain others), the right of a shareholder to claim a repayment of any part of the tax credit in respect of a dividend paid by Zirax will depend on the existence and terms of any double tax agreement between the UK and the country in which the shareholder is resident. Owing to the amount of the tax credit it is unlikely in practice that any significant relief would be available to a non-resident shareholder.

Shareholders who are not resident in the UK should consult their own taxation adviser on the application of such provisions and the procedure for claiming relief.

16.3 *UK Taxation on Chargeable Gains for Shareholders*

Shareholders who are resident or ordinarily resident in the UK for taxation purposes may be subject to UK taxation on chargeable gains ("CGT") on the disposal of their shares in Zirax. Liability to UK CGT will depend on, among other things, the individual circumstances of the shareholder (including the availability of exemptions and allowable losses), the period of time for which the shareholders has held the shares and the form of consideration received.

Shareholders who are not, and have not been, either resident nor ordinarily resident in the UK for taxation purposes, and who do not hold their shares in Zirax as part of the assets of a trade carried on in the UK through a UK permanent establishment, will not be subject to UK CGT. Such shareholders who hold their shares in Zirax as part of the assets of a trade carried on in the UK through a UK permanent establishment may be subject to liability to UK tax on a disposal of their shares.

Shareholders who are not resident or ordinarily resident in the UK should consult their own tax adviser.

16.4 *Stamp Duty and Stamp Duty Reserve Tax ("SDRT")*

No liability to UK stamp duty or SDRT should arise on the allotment of ordinary shares by Zirax under the Placing.

Any future dealings with shares will be subject to stamp duty and SDRT in the normal way.

16.5 *Inheritance Tax and Business Property Relief*

The shares in Zirax are assets situated in the UK for purposes of UK inheritance tax. A gift or other disposition of such assets may (subject to certain exemptions and reliefs) give rise to a liability to UK inheritance tax. For inheritance tax purposes, a transfer of assets at less than full market value may be treated as a gift and particular rules apply to gifts where the donor reserves or retains some benefit. There may also be a liability to UK inheritence tax on the death of the beneficial owner of the shares.

The information in this paragraph 16 above is a general guide to the taxation treatment for shareholders in Zirax and should not be construed as constituting advice. Potential investors should obtain advice from their own investment or taxation adviser.

17. Persons Responsible for the Admission Document

The Directors whose names appear on page 4 of this document, accept responsibility for the information contained in this document.

18. General

18.1 The gross proceeds of the Placing are expected to be approximately £7,754,464. The total costs and expenses relating to Admission and the Placing are payable by the Company and are estimated to amount to approximately £1,450,000 (including Value Added Tax).

18.2 PricewaterhouseCoopers has given and has not withdrawn its written consent to the inclusion of its report on Zirax and the Company in the form set out in Part III – "Historical Financial Information" of this document and to the references to its name in the form and context in which they appear in this document.

18.3 Westhouse has given and has not withdrawn its written consent to the issue of this document with the inclusion of its name in the form and context in which it appears.

18.4 Metropol has given and has not withdrawn its written consent to the issue of this document with the inclusion of its name in the form and context in which it appears.

18.5 Other than the current application for Admission, the Ordinary Shares have not been admitted to dealings on any recognised investment exchange nor has any application for such admission been made nor are there intended to be any other arrangements for dealings in the Ordinary Shares.

18.6 The accounting reference date of Zirax is 31 December in each year.

18.7 The Placing Price represents a premium of 14 pence over the nominal value of 1 penny for an Ordinary Share.

18.8 Other than the options referred to in paragraphs 9 and 11.4 above, Zirax has no convertible securities in issue.

18.9 Save for professional advisers disclosed in this document, in the last twelve months no person has received or is contractually entitled to receive, directly or indirectly, from Zirax on or after Admission any payment or benefit from Zirax to the value of £10,000 or more or securities in Zirax to such value or entered into any contractual arrangements to receive the same from Zirax at the date of Admission.

18.10 The financial information relating to the Group contained in this document does not constitute statutory accounts within the meaning of section 240(5) of the Act. No statutory accounts of Zirax have been filed with the Registrar of Companies since its incorporation.

18.11 Monies received from placees in respect of the Placing Shares will be held in accordance with the terms of the placing letters issued by Westhouse/Metropol to such placees until such time as the Placing Agreement becomes unconditional in all respects. If the Placing Agreement does not become unconditional in all respects by 8.00 a.m. on 12 January 2006, monies received from placees will be returned to placees at the relevant placees' sole risk without interest.

18.12 Following Admission, share certificates representing the Ordinary Shares to be issued pursuant to the Placing are expected to be despatched by post to placees who do not wish to receive shares in uncertificated form, at the relevant placees' sole risk. It is expected that certificates in respect of the Placing Shares will be despatched by 23 December 2005. No temporary documents of title will be issued in connection with the Placing. Pending the despatch of definitive share certificates, instruments of transfer will be certified against the register of members of Zirax.

18.13 The CREST accounts of placees who have duly elected to receive their Ordinary Shares in uncertificated form are expected to be credited to the designated CREST account on 16 December 2005.

19. Availability of Admission Document

Copies of this document are available during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) free of charge from Zirax's registered office and at the offices of Westhouse for the period from the date of this document until one month after Admission.

Dated 12 December 2005

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